

Building on our
Strengths.

2018 ANNUAL REPORT





Table of Contents

Financial Highlights	2
Board of Directors	3
Chairman’s Report	4
Our Executive Team	5
Message from the President	6 - 7
Our Management Team	8 - 10
Community Giving	11 - 13
Management Discussion & Analyses	14 - 19
Independent Auditors’ Report	21 - 29
Consolidated Statement of Financial Position	30
Consolidated Statement of Comprehensive Income	31
Consolidated Statement of Changes in Equity	32
Consolidated Statement of Cash Flows	33
Notes to the Consolidated Financial Statements	34 - 84

Financial Highlights

31 December (B\$000)	2018	2017	% Change	2016	2015	2014	2013
Interest Income	66,892	61,287	9.15%	59,384	51,866	45,604	39,541
Interest Expense	(12,675)	(14,831)	-14.54%	(14,640)	(13,158)	(13,995)	(13,709)
Net Interest Income	54,217	46,456	16.71%	44,744	38,708	31,609	25,832
Provision for Loan Losses	(12,738)	(8,961)	42.15%	(7,987)	(5,954)	(6,860)	(6,148)
Net Interest Income after Provision for Loan Losses	41,480	37,495	10.63%	36,757	32,754	24,749	19,684
Non-Interest Income	3,289	3,215	2.30%	3,099	3,469	4,270	3,833
Non-Interest Expenses excluding Provision for Loan Losses	(24,571)	(22,005)	11.66%	(20,272)	(18,671)	(16,535)	(14,658)
Share of Profits of Joint Ventures	2,166	2,348	-7.75%	2,105	3,148	1,642	875
Net Income	22,364	21,054	6.22%	21,688	20,700	14,126	9,735
Total Comprehensive Income	22,364	21,054	6.22%	21,231	20,700	14,126	8,678
Net Income Attributable to Ordinary Shareholders	21,389	20,078	6.53%	20,635	19,737	13,321	8,929
PER SHARE DATA:							
Book Value per Ordinary Share	\$2.60	\$2.58	0.72%	\$2.38	\$2.08	\$1.67	\$1.45
Dividends per Ordinary Share	\$0.52	\$0.50	4.00%	\$0.40	\$0.28	\$0.25	\$0.14
Year End Share Price	\$12.85	\$10.45	22.97%	\$9.30	\$6.60	\$4.75	\$3.01
Weighted Average Ordinary Shares	28,803,525	28,795,142	0.03%	28,776,198	28,746,474	28,707,545	28,685,045
BALANCE SHEET DATA (B\$000):							
Investment Securities	83,058	88,497	-6.15%	77,129	62,042	55,608	47,901
Loans and Advances to Customers	439,700	408,644	7.60%	386,804	360,514	332,370	313,762
Total Assets	657,901	627,770	4.80%	564,209	521,688	472,794	444,188
Net Write-offs	13,441	9,048	48.55%	8,369	7,400	3,874	3,442
Deposits from Customers	532,735	493,517	7.95%	430,883	397,113	376,650	354,454
Total Equity	89,868	89,317	0.62%	83,562	74,763	59,366	53,160
Total Equity - Ordinary Shares	74,868	74,317	0.74%	68,562	59,763	47,855	41,649
Asset Growth	4.80%	11.27%		8.15%	10.34%	6.44%	14.82%
Loan Growth	7.60%	5.65%		7.29%	8.47%	5.93%	12.69%
PERFORMANCE RATIOS:							
Earnings Per Share	\$0.74	\$0.70	6.50%	\$0.72	\$0.69	\$0.46	\$0.31
Price/Earnings	17.30 x	14.99 x	15.46%	12.97 x	9.61 x	10.24 x	9.67 x
Price/Book Value	4.94 x	4.05 x	22.09%	3.90 x	3.18 x	2.85 x	2.07 x
Dividend Yield	4.05%	4.78%	-15.42%	4.30%	4.17%	5.26%	4.65%
Return on Average Assets (ROAA)	3.48%	3.53%	-1.51%	3.91%	4.16%	3.08%	2.09%
Return on Average Ordinary Shareholders' Equity (ROAE)	28.68%	28.11%	2.03%	31.45%	36.68%	29.77%	19.83%
Ordinary Dividend Payout Ratio	70.18%	71.89%	-2.38%	57.22%	40.22%	54.18%	51.34%
Efficiency Ratio	42.73%	44.30%	-3.55%	42.37%	44.27%	46.08%	49.41%
Net Interest Margin	5.83%	5.34%	9.28%	5.69%	5.39%	4.79%	4.25%
ASSET QUALITY RATIOS:							
Non-Performing Loans to Total Loans	4.84%	6.25%	-22.58%	6.30%	7.28%	8.41%	8.30%
Non-Performing Loans to Total Assets	3.42%	4.26%	-19.68%	4.52%	5.28%	6.23%	6.10%
Net Write-offs to Average Loans	1.98%	1.44%	37.93%	1.41%	1.34%	0.75%	0.73%
Provision for Loan Losses to Total Loans, including Accrued Interest	3.35%	2.42%	38.05%	2.58%	2.86%	3.50%	2.84%
Provision for Loan Losses to Non-Performing Loans	69.12%	38.76%	78.30%	40.94%	39.31%	41.66%	34.28%

Board of Directors



Scott Elphinstone,
Chairman



Thomas F. Hackett



Alfred H. Stewart



Stuart M. Bowe



Jennifer P. Dilbert



Anwer J. Sunderji



J. Nicholas Freeland



Chairman's Report



Despite this highly competitive environment and a significant change in accounting policies for provision for loan losses, total assets, net income and return on average ordinary shareholders' equity still grew modestly.

2018 was a much better year for the Commonwealth of The Bahamas than the past many years. Gross Domestic Product (GDP) growth recorded for the year was 1.60% versus 0.10% in 2017 and growth in tourist arrivals was 7.90% reversing a 2.10% decline in the previous year. The better economic climate proved to ignite our competitors, making the loan growth we experienced in the recent past years much more difficult to achieve. Despite this highly competitive environment and a significant change in accounting policies for provision for loan losses, total assets, net income and return on average ordinary shareholders' equity still grew modestly. Fidelity Bank (Bahamas) Limited (the Bank) again closed the year with a strong capital base exceeding our target level of 20.00% of risk-weighted assets, and ample liquidity. I would like to thank the management and staff of the Bank for an extraordinary effort to continue our record of growth and profitability in 2018.

Looking forward, we expect the economy of the United States of America (US) and other major economies to continue to grow in 2020 and this will have a positive effect on the local economy. This global economic expansion has been one of the longest on record. While in the short term prospects are good, this expansion is showing signs of age and there are emerging some warning signs that a recession may start as soon as late next year. The policy of the incumbent US President to use tariffs to force trade renegotiations adds to the risk of global growth faltering even sooner. Despite these risks, I remain confident in the Bank's overall strategy and the ability of its management and staff to deliver superior results in a more volatile economy.

The pending sale of our shareholding in our joint venture, Royal Fidelity Merchant Bank & Trust Limited (RFMBT) to RF Holdings Limited, an entity whose shareholders principally comprise management of RFMBT

and outside Bahamian investors, will significantly boost our profitability and earnings per share in 2019. We are proud of the contribution this business has made to the Bank and look forward to working with RFMBT, under its new ownership, in the future on mutual clients. The agreed sales price of \$16,449,000 represents an opportunity to enhance ordinary shareholder value by paying an extraordinary dividend following the completion of the transaction, including regulatory approval, and settlement of the sales price which we expect in 2019.

I would like to thank my fellow directors, management and staff for supporting me in my first year as Chairman and the shareholders for their continued confidence and support.

A handwritten signature in black ink, appearing to read 'Scott Elphinstone'.

Scott Elphinstone,
Chairman

Our Executive Team



From Left to Right

Thomas Hackett, *Chief Executive Officer*
Gowon N. G. Bowe, *Group Chief Financial Officer*
Malvern Bain, *Vice President, Asset Recovery*

Heatherdawn E. Blake-Brown, *Director of Card Services*
Gregory Bethel, *President*
Crestwell Gardiner, *Vice President, Credit & Lending*
Spencer Dean-Smith, *Compliance Officer*

Message from the President

This new era will call for more adjustments to our strategy and business objectives. As we make these adjustments, we commit to the revival of the 'Moral Mission of Banking'.



In 2010, Fidelity Bank (Bahamas) Limited (the Bank) entered a new decade with a new strategy and new business objectives, which meant a shift in the focus of our business encompassing our products, promotion, premises and people.

During 2018, the Bank continued to 'bear the fruit' of good results in this decade. For the year ended 31 December 2010, net income was \$1,572,845. For the year ended 31 December 2018, it was \$22,364,469 as the statement of financial position grew from \$282,198,325 in 2010 to \$657,900,888 in 2018. Our share price during the decade has increased from \$2.17 per share to \$12.85 per share, with return on average ordinary shareholders' equity increasing from under 5.00% in 2010 to over 25.00%.

As we move towards the close of a decade and embrace a new era of challenges and change, we reflect on the leadership of Anwer J. Sunderji and Thomas F. Hackett with profound gratitude. We also express our appreciation to the board of directors, senior executives, management team, supervisors and staff who continue to contribute to our growth and success. We also thank our valued customers who give us the opportunity to serve them. We cherish their support and loyalty.

This new era will call for more adjustments to our strategy and business objectives. As we make these adjustments, we commit to the revival of the 'Moral Mission of Banking':

- 1) Be helpful, fair and honest with colleagues, customers and the community.
- 2) Never sell a product or service which does not benefit the customer.
- 3) Constantly keep the important and significant financial principles in the minds of our colleagues, customers and community:
 - do not be frivolous in your spending
 - spend on urgent and important needs
 - spend no more than you earn

- save and give before you spend
 - consolidate your debt, manage your debt, and reduce your debt
 - do not borrow to buy pleasure or to impress or please others
 - borrow only to:
 - buy an asset which will increase in value or generate additional income
 - consolidate debt, increasing cash flow for saving and investing
 - purchase a modest vehicle to get to and from work
 - meet an urgent and important family need
 - buy a home or a lot or to invest in real estate
 - save for retirement, emergencies, annual expenses e.g. family vacation and to fund short, medium- and long-term goals
 - seek a second source of income e.g. shares of well-managed companies
 - save to educate your children so they can compete for the best jobs in a future which will be impacted by automation and technology
 - increase net worth annually as a measure of achievement and financial freedom from reliance on debt.
- 4) Teach life's most crucial lesson to all you can influence: the tenacious pursuit of knowledge (including

financial literacy), hard work, mutually beneficial relationships, planned giving, spending and saving (with a monthly budget) and increasing your net worth annually are the routes out of debt or poverty and the formula for a better future.

- 5) Enable prudent and qualified borrowers – who work in the private or public sector – to gain access to the capital of shareholders and to depositors' savings, so the investor, saver and borrower can profit or benefit.
- 6) Add value for the fees and rates we charge, including free and comprehensive financial coaching and a relationship manager who is available, ethical, knowledgeable, communicates, shows appreciation and 'practices what is preached'.
- 7) Give back to the communities where our colleagues and customers live, through the payment of taxes, donations, sponsorships, free financial coaching, life enhancement seminars and financial literacy seminars.
- 8) Support, train, coach, mentor, develop and provide for our colleagues who provide for our customers.

9) Generate a good return for the shareholders who take the risk to invest in the Bank.

10) Be profitable (increase revenue, manage expenses and carefully manage risks) to ensure the Bank can do all of the above and attract investors, customers and new recruits seeking a career in banking and financial services.

With this in mind, and with the continued support of customers and colleagues we can look forward to continued success!

In partnership,



H. Gregory J. Bethel
President



Our Management Team



Leslie Fox
Manager, Loan Administration



Janice Rolle
Sr. Financial Centre Manager



Stacia Bowe
Director, Human Resources



Bridget Forbes
Financial Centre Manager



Carmel Parker-Dean
Financial Centre Manager



Victoria Albury
Financial Centre Manager



Dominic Ferguson
Financial Centre Manager



Odia Gaskin
Financial Centre Manager



Tennessee Bowe
Financial Centre Manager



Tameka Pratt
Sr. Financial Representative



Eunice Johnson
Manager, Cards - Fraud and Risk



Lakerria Munnings
Manager, Cards - Customer Service



Thallise Maycock
Manager, Premises



Khrystle Ferguson
Manager, Legal Affairs



Andrea Smith
Senior Accountant



Domicia Hepburn
Manager, Credit Underwriting



Rodger Pinder
Manager, Asset Recovery



Nevine Rolle
Manager, Compensation & Benefits



Anatole Major
Manager, Human Resources



Javaughn Strachan
Manager, Training



Devia Knowles
Sr. Financial Representative



Vanessa Clarke
Manager, Internal Audit



Antonio Saunders
Manager, Marketing



Katherine Lackhart
Manager, Central Services



Alan Loane
Chief Information Officer



Demetries Rolle
Manager, Information Technology



Tineka Mackey
Manager, Branch Operations



Shervonne Knowles
Sr. Customer Service Officer



Denay Thompson
Sr. Compliance Analyst

Community Giving

COMMUNITY vision inspire network loving
attitude purpose unite kindness unconditional
NOW **SHARE** COMPASSION teamwork
give back TIME connect
make a difference CHARITY generosity GIFT
get involved ALTRUISM care support service

*Fidelity maintains a network of employee volunteers.
Have a look at the volunteer activities for 2018.*

Bahamas Feeding Network: Fidelity and its employees sprang into action to help feed persons in our communities



Naomi Blatch – Back-to-School Event



Great Commision



Bain and Grants Town Renovation Project



Centreville Urban Renewal Back-to-School Event



Charity of the Quarter

We are excited to partner with a new charitable organisation each quarter. We ask our customers to donate to the charity through the Charity Boxes placed at each branch and in turn Fidelity matches these contributions up to \$10,000. Fidelity does this in order to support the charitable work of numerous non-profit organisations! Charities which we have donated to include:



Quarter 1 – L.E.A.D. Institute \$3,000



Quarter 2 – Cancer Society \$5,000



Quarter 3 – Briann's Care Closet - Uniform Drive \$2,500



Quarter 4 – Bahamas Association For The Physically Disabled (BAPD) \$5,000

Staff payroll deduction for charitable Initiatives

We encourage our staff to give back, where they can, through a monthly payroll deduction, usually in the amount of between \$1 and \$5, and in turn Fidelity matches these contributions up to \$30,000. Fidelity employees, each year, get to choose the charity where the funds should be donated; and in some cases, several charities may be selected as beneficiaries. Total donations received from our Fidelity employees using our Bank's payroll deduction programme totalled \$8,378; and has resulted in Fidelity making a total donation of \$31,136 on behalf of its employees. These funds went in part to ICAN and the Seahorse Institute.



FOCUS Donation



Disabled Persons Organization (DPO)



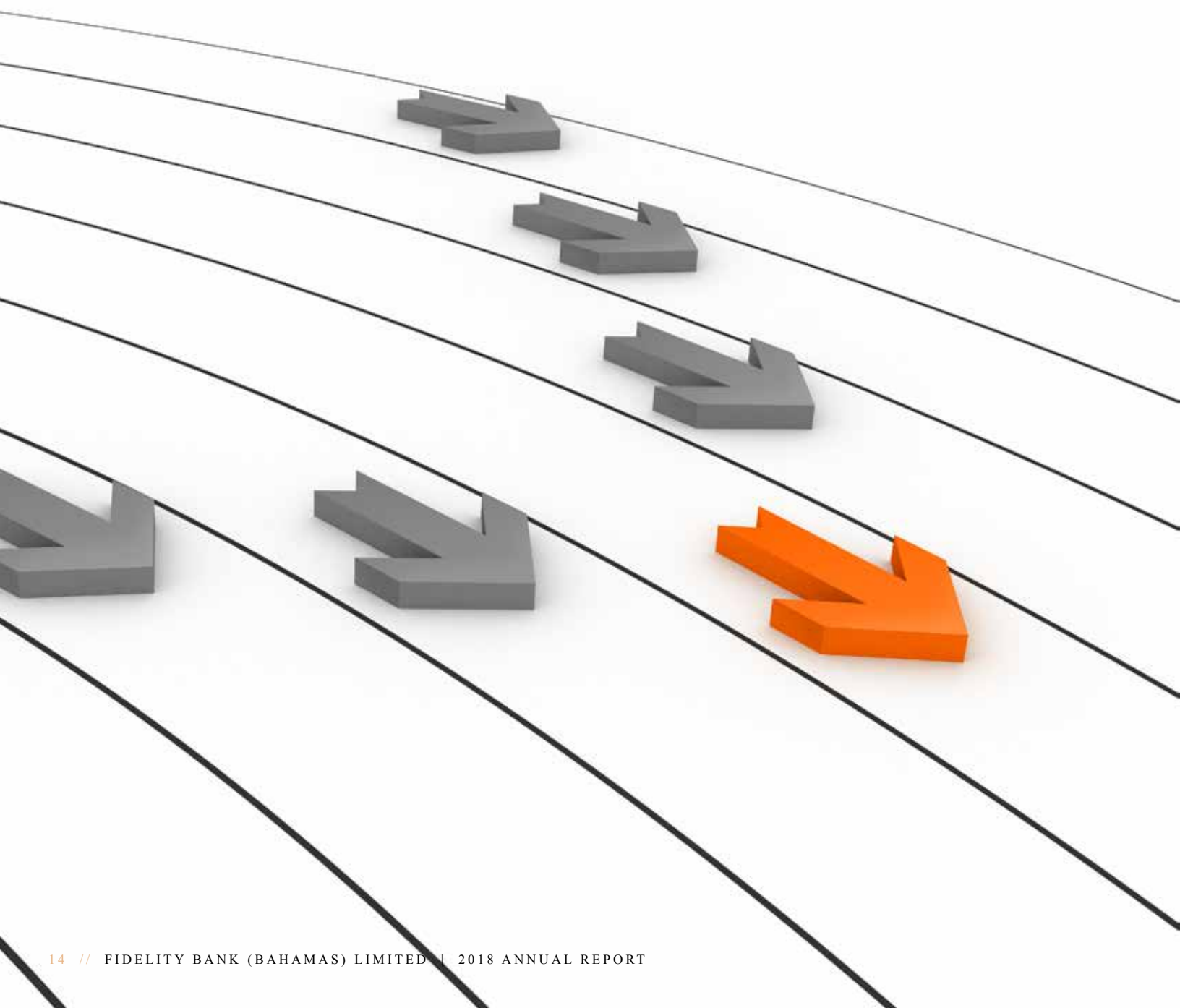
300 Emergency Kits Donated to NEMA



Reach Out Youth Centre



Management Discussion & Analyses



Financial Position and Performance

For the year ended 31 December 2018, Fidelity Bank (Bahamas) Limited (the Bank) continued its growth trajectory of recent years with total assets growing \$30,130,745 (2017: \$63,561,193), representing 4.80% (2017: 11.27%) over the corresponding period, to \$657,900,888 (2017: \$627,770,143). The growth translated into net income and total comprehensive income of \$22,364,469 (2017: \$21,053,528), representing an increase of 6.23% (2017: decrease of 2.93%), with return on average assets of 3.48% (2017: 3.53%) and return on average ordinary shareholders' equity of 28.68% (2017: 28.11%) demonstrating the quality of growth. Earnings per ordinary share totalled \$0.74 (2017: \$0.70) and during the year, dividends totalling \$15,010,668 (2017: \$14,433,335) were paid on ordinary shares, representing \$0.52 (2017: \$0.50) per share and a dividend payout ratio of 70.18% (2017: 71.89%).

The principal growth in assets resulted from increases in loans and advances to customers of \$31,055,593 (2017: \$22,040,675), representing 7.60% (2017: 5.70%), to \$439,699,830 (2017: \$408,644,237); and cash on hand and at banks of \$2,639,119 (2017: \$28,639,062), representing 2.54% (2017: 38.07%), to \$106,498,105 (2017: \$103,858,986).

The continued growth of consumer loans, which yield higher interest margins, contributed to an increase in net interest income of \$7,760,871 (2017: \$1,712,789), which was offset by increases in the operating expenses associated with the growth in the Bank totalling \$6,342,609 (2017: \$2,706,464), certain of which are non-recurring. Overall, the efficiency ratio, which represents operating expenses excluding provision for loan losses as a percentage of total operating income, improved during the year to 42.73% (2017: 44.30%) demonstrating that the increased operating expenses are achieving a return on the investments in our people, our products and our communities.

During 2019, the Bank announced that it has entered into a sale and purchase agreement to dispose of its shareholding in one (1) of its joint ventures, Royal Fidelity Merchant Bank & Trust Limited (RFMBT), which involves certain related parties and is subject to regulatory approval. As a result, the investment in RFMBT is shown in the audited financial statements as assets held for sale, which when combined with continuing investments in joint ventures, contributed \$2,166,388 (2017: \$2,347,665) through the Bank's share of profits of joint ventures. The sales price for RFMBT is \$16,449,000 plus an amount equal to 50.00% of the undistributed profits and retained earnings of RFMBT at the time of closing, which will result in a gain on the sale totalling \$7,549,000, as well as the Bank's share of profits of RFMBT through to the date of closing.

Capital Adequacy

As of 31 December 2018, the Bank had total equity of \$89,867,918 (2017: \$89,316,603), representing an increase of 0.62% (2017: 6.89%) over the corresponding period. The Central Bank of The Bahamas (the Central Bank) requires that the Bank maintains a ratio of total regulatory capital to risk-weighted assets at or above a minimum of 14.00%, and as of 31 December 2018, the Bank's total regulatory capital to risk-weighted asset stood at 21.72% (2017: 22.51%).

Effective 1 January 2018, the Bank recognised a decrease in total equity of \$5,893,414 due to the adoption of International Financial Reporting Standards (IFRS) 9 *Financial Instruments* (IFRS 9), which requires the provision for loan losses to be determined based on an expected loss model, as opposed to an incurred loss model. In simple terms, the Bank is required to establish a provision for all loans and advances to customers based on the expectation of the portion of loans and advances that will experience challenges in collection. Financial institutions apply interest rates on loans and advances based on the determined risk of challenges with collection (that is, the higher the risk, the higher the interest rate and vice versa), and IFRS 9 requires financial institutions to reduce the value of loans and advances by the expected loss experience, regardless of whether loans and advances are being serviced according to the terms of the loans and advances or not.

Despite the impact of adopting IFRS 9, the Bank was able to maintain total equity consistent with the prior year and increase dividends paid to ordinary shareholders through the Bank's financial performance, that is net income and total comprehensive income. The Bank's primary objectives in managing regulatory capital is maintain a ratio of total regulatory capital to risk-weighted assets at a level that facilitates strategic growth in risk-weighted assets, principally loans and advances to customers, and provides sufficient headroom to withstand a deterioration in the Bank's risk-weighted assets in the event of negative economic events in the Commonwealth of The Bahamas that could adversely affect the Bank's risk-weighted assets. As of 31 December 2018, and continuing into 2019, the Bank has maintained a ratio of total regulatory capital to risk-weighted assets that meet these objectives.

As the Bank maintains the targeted level of regulatory capital, effectively total equity, its focus is on deploying that equity in assets and activities that achieve acceptable returns for its shareholders, and as disclosed earlier, the return on average ordinary shareholders' equity demonstrates success to date in achieving those returns.

Loans Advances to Customers

For the year ended 31 December 2018, the Bank experienced tremendous growth in consumer and other loans, which increased by \$44,323,910 (2017: \$29,073,624), representing 12.60% (2017: 9.01%). This growth was the result of significant efforts by the Bank's dedicated and motivated staff, combined with the development of products and marketing and public relations campaigns that never failed to attract the attention of customers and potential customers alike. However, the excitement associated with such growth was tempered by our core principles of quality lending centred on a borrower's ability to pay and providing financial coaching to improve the lives of our customers.

For the year ended 31 December 2018, existing mortgage loans in The Bahamas continued their lethargic performance and the number of potential borrowers qualifying for new mortgage loans remains very limited. The experience of the Bank with mortgage loans was consistent with the industry and management has directed resources to best manage its existing mortgage portfolio, in particular non-performing mortgage loans, with cautious underwriting of any new mortgage loans. During the year, repayments and realisation of properties pledged as collateral were the only significant activities in the mortgage portfolio, resulting in a decrease in mortgage loans of \$7,187,650 (2017: \$7,277,363), representing 10.17% (2017: 9.34%). The enhanced efforts for the realisation of collateral on non-performing mortgage loans initiated in the prior year has resulted in a decline in persistent non-performing loans, and these efforts continue to be intensified.

As of 31 December 2018, mortgage loans represented 13.81% (2017: 16.73%) of total loans with consumer and other loans representing 86.19% (2017: 83.27%). The performance of the underlying loan portfolios manifests in the loan mix. Consumer and other loans earn higher interest margins and to date are experiencing positive levels of loan defaults, which supports the continued focus on growing this portfolio. However, the loan defaults experienced with mortgage loans along with the lower interest margins continue to lead to cautious participation by the Bank in this portfolio, as management monitors the turnaround in the Bahamian economy. Senior management of the Bank and those charged with governance monitor the mix of the loan portfolio on a continuous basis, taking into consideration economic indicators and market conditions. The performance and fundamentals of the various types of loans will drive the Bank's growth strategy, along with managing concentration risks through measured diversification of the loan mix.

The loan loss experience for consumer and other loans significantly outperforms that for mortgage loans, which manifests in the movement in non-performing loans that decreased to \$22,498,829 (2017: \$26,728,528), and represent less of the total loans and advances to customers than in the corresponding period at 5.00% (2017: 6.46%).

As of 31 December 2018, provision for loan losses represented 3.46% (2017: 2.50%) of total loans and advances to customers, excluding accrued interest, with the increase primarily due to the adoption of IFRS 9 that requires the provision for loan losses to be determined based on an expected loss model. The adoption of IFRS 9 and its impact on provision for loan losses is described in further detail below.

Deposits from Customers and Debt Securities

For the year ended 31 December 2018, the excess liquidity in the banking system in The Bahamas persisted and the Bank's strategy of reducing interest rates more gradually than its competitors resulted in continued inflows of new deposits and an increase in deposits from customers of \$39,217,962 (2017: \$62,633,477), representing 7.95% (2017: 14.54%). As customers can attest, the Bank seeks to balance interest rates with terms to maturity, offering better interest rates to those customers that commit to extended term deposits. This provides greater stability for the Bank in managing its liquidity and funding of productive assets, and simultaneously provides the benefit of higher interest rates to customers with the lower cost of funds to the Bank. During the year, the Bank redeemed more costly funding in the form of debt securities of \$10,000,000 (2017: \$5,000,000), which was facilitated by the increased deposits from customers.

Management will continue to manage its deposits from customers and debt securities to establish the appropriate mix of funding stability and cost, and will consider further redemption of debt securities during this period of elevated levels of deposits from customers. Redemptions of debt securities result in increased capacity to access such funding in future periods, if and when required.

The mix of deposit types remained consistent with the corresponding period, and the strategy of encouraging customers to place deposits in term deposits for extended periods continues and the more advantageous interest rates for our customers continues to build stronger customer relationships and customer loyalty that will benefit the Bank for many years to come. Additionally, managing treasury options associated with the excess liquidity benefits from the greater stability in the movement of funds.

The growth in deposits from customers matched and slightly exceeded the growth in loans and advances to customers, enabling the Bank to deploy the additional cash into its core income producing financial assets and thereby contributing to the increases in interest income and net interest income. The further surplus cash, including that generated from maturities of investment securities, funded the redemption of debt securities as noted above and marginally increased cash on hand and at banks. Cash on hand and at banks continued to be placed principally with the the Central Bank, which are non-interest bearing and accordingly subdues net interest income performance. However, towards the end of 2018 and continuing in 2019, the Bank has had the opportunity to place funds in interest bearing term deposits, which will provide gains in interest income and contribute positively to net interest income performance.

The Bank's objectives in treasury management are to comfortably meet liquidity requirements set internally and by the Central Bank and maximise net interest income. This requires constant management of the matching of financial assets and financial liabilities and agility to rebalance when mismatches exceed targeted levels.

Operating Revenues

Net Interest Income

For the year ended 31 December 2018, the Bank recognised net interest income of \$54,217,316 (2017: \$46,456,445), representing an increase of 16.71% (2017: 3.83%) over the corresponding period, with net interest margin on interest bearing financial assets standing at 5.83% (2017: 5.34%). Net interest income performance benefited from: the significant increase in the higher yielding consumer loans, with the majority of the growth recorded by the end of the second quarter of 2018; the lower interest expense associated with deposits from customers compared with the interest expense associated with debt securities; and interest income earned on deposits at banks, which will increase in 2019 as a full year of such placements is experienced. Further, if the Bank is successful in maintaining the levels of consumer loans recognised as of 31 December 2018 or continuing to grow through 2019, the trend of increasing net interest income is expected to further increase.

Non-Interest Income

The principal sources of income other than interest are fees and commissions and share of profits of joint ventures, which are also recognised in profits of assets held for sale due to the impending disposal of the Bank's shareholding in RFMBT and the measurement and presentation requirements of IFRS. Accordingly, the share of profits of joint ventures along with the profits of assets held for sale represent the financial performance of the Bank's investments in joint ventures.

For the year ended 31 December 2018, fees and commissions recognised remained consistent with the corresponding period at \$2,887,483 (2017: \$2,821,528). Further, the total financial performance of investments in joint ventures decreased by 7.72% (2017: increased by 11.53%) over the corresponding period to \$2,166,388 (2017: \$2,347,665). The moderate decrease during the year was principally due to lower net income and total comprehensive income of the Bank's primary joint venture, RFMBT, mainly due to the corresponding period experiencing increased fees and commissions from successful capital raising activities during that year that were not matched during the current year. The Bank continues to recognise its share of profits of RFMBT during 2019 up to the date of closing and will recognise a gain on the final settlement of the transaction, however, the contribution to the Bank's profits by RFMBT will cease during the year ending 31 December 2019.

For the year ended 31 December 2018, income other than interest represented 9.14% (2017: 10.69%) of total income.

Operating Expenses

For the year ended 31 December 2018, expenses, excluding provision for loan losses, increased by 11.66% (2017: 8.55%) over the corresponding period totalling \$24,570,945 (2017: \$22,005,371). The overall increase was led by increases in certain general and administrative expenses, in particular advertising and promotional expenses associated with the Bank's 40th Anniversary celebrations and promotions and the hosting of the highly revered Women's Only Seminar that is hosted every two (2) years. In the prior year, the increase in certain general and administrative expenses was principally due to an increase in bank and business licence fees of \$564,729, representing an increase of 24.50% over 2016; however, during the current year, such fees remained relatively flat, increasing by \$32,482 or 1.13%. The practice of hiring experienced personnel to support the sales strategy and handle the increased administration that accompanies the loan growth achieved during the year, which commenced in the prior year and continued during the current year, led to an increase in salaries and employee benefits of \$1,134,471 (2017: \$372,926), representing an increase of 11.06% (2017: 10.38%). The increases in salaries and employee benefits are considered investments in the foundation of the Bank necessary for its continued growth and development, which to date have yielded positive returns on the investments.

Provision for Loan Losses

The provision for loan losses, and the related expense, experienced significant increases during 2018 due to several factors, with the principal one (1) being the adoption of IFRS 9 effective 1 January 2018. The impact of the adoption on the provision for loan losses led to an increase of \$5,893,414, which corresponds with the decrease in total equity described under Capital Adequacy above, due to measuring the provision for loan losses based on an expected loss model. Subsequent to 1 January 2018, the provision for loan losses and the related expense are determined by the financial model used to determine the opening adjustment to the provision for loan losses, as updated for the changes in the loan portfolio and the experience with collections and delinquencies. The corresponding figures were measured based on the incurred loss model and therefore are not fully comparable.

For the year ended 31 December 2018, the expense for provision for losses increased by \$3,777,035 (2017: \$973,462), representing an increase of 42.15% (2017: 12.19%) over the corresponding period. The increase in the expense was due to: the significant growth in gross loans and advances to customers, which now require a provision for loan losses on day one (1) based on past experience of what portion of the portfolio will ultimately be uncollectible even though the loans and advances are fully performing; and increased specific provision for loan losses on mortgage loans, as a result of new loans becoming non-performing, long periods required to realise collateral supporting the mortgage loans and ultimately, reduced prices being realised on sales of properties due to market conditions in The Bahamas. The Bank expects an increase in the expense for provision for loan losses commensurate with growth in gross loans and advances to customers, however, the consistency in the lending policies of the Bank, and its strong loss experience in comparison to industry and competitor statistics, are expected to result in normalised levels of the expense going forward in 2019 and beyond, excluding the impact on the expense of future growth in gross loans and advances to customers.

As of 31 December 2018, non-performing loans and advances to customers represented 5.00% (2017: 6.46%) of total loans and advances to customers, due to a reduction in mortgage loans, which have the higher non-performing ratio. Non-performing mortgage loans totalled \$17,416,845 (2017: \$19,525,422), representing 77.41% (2017: 73.05%) of total non-performing loans and advances to customers. Provision for loan losses represented 69.12% (2017: 38.76%) of total non-performing loans and advances to customers. The reduction in the size of non-performing loans and advances to customers is the result of increased efforts to realise collateral, where available, and write-off non-performing loans in an efficient manner following attainment of judgments from the Courts of The Bahamas, but equally demonstrates the quality of the loan portfolio as the pace of loans and advances to customers becoming non-performing has reduced significantly, and as legacy non-performing loans and advances to customers are resolved.

The Bank's principal focus is on quality underwriting and monitoring early signs of delinquency, as it recognises that significant effort is required in rehabilitating non-performing loans and advances. New strategies surrounding collections and rehabilitation of non-performing loans and advances to customers implemented during the prior year led to the commencement of the reaping of benefits during the current year with recoveries of amounts previously written off totalling \$701,866 (2017: \$642,614).

Other Impacts of the Adoption of IFRS 9 and IFRS 15

The principal financial impact of the adoption of IFRS 9 as of 1 January 2018 was the increase in provision for loan losses and corresponding decrease in total equity as described above, based on the change in measurement bases to an expected loss model. In addition to this change, the adoption of IFRS 9 led to the change in classification of financial assets and financial liabilities, principally investment securities, following a full assessment of the Bank's business model for each type of financial instrument. The changes in classifications did not have any material financial impact, however, note disclosures in the consolidated financial statements have been expanded substantially.

As of 1 January 2018, the Bank also adopted IFRS 15 *Revenue from Contracts with Customers* (IFRS 15), which required: an evaluation of the inventory of impacted transactions and current revenue recognition; the determination of whether there are multiple performance obligations; and the determination of period over which performance obligations are performed. Following the analyses, the Bank concluded that the adoption of IFRS 15 did not have any significant impact on its accounting policies, measurement bases or notes disclosures in the consolidated financial statements.

Summary

The directional movements of financial metrics observed in the prior year proved to be indicative of the potential successes ahead for the Bank. For the year ended 31 December 2018, the financial performance of the Bank was commendable, as the Bank experienced record growth in its core business and did so without sacrificing acceptable returns on equity and assets. Despite the slow recovery of the Bahamian economy, and no significant improvements in the factors that most impact the Bank's business, such as unemployment and gross domestic product, the determination and commitment of the hard working team of the Bank maximised the opportunities that presented themselves and set the tone for future prospects of the Bank. The financial position of the Bank continues to strengthen and draws the recognition of its value by customers, potential customers, shareholders and potential shareholders. It is recognised that while there is optimism for increased economic recovery, there will be increasing competition for the existing overall loan portfolio in The Bahamas and the Bank and its team must remain focused on continuing to execute on its strategies, monitoring and managing risk, and building on the customer experience.

However, customers and shareholders alike have every reason to place confidence in the lending strategies of the Bank, which put the Bank in good stead, with new strategies being developed and implemented in response to market conditions and portfolio experience. And the keys to success highlighted in prior years of ongoing investments in personnel, training and information technology remain consistent today, and the Bank has demonstrated its commitment to these types of investments.

Consolidated Financial Statements





Independent auditors' report

To the Shareholders of Fidelity Bank (Bahamas) Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Fidelity Bank (Bahamas) Limited (the Bank) and its subsidiaries (together 'the Group') as at 31 December 2018, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

Fidelity Bank (Bahamas) Limited's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report.

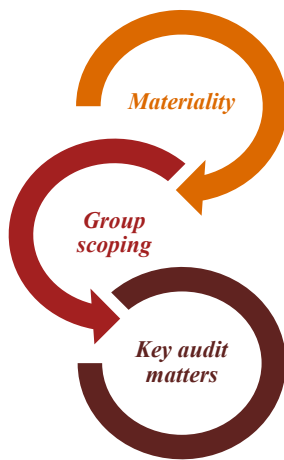
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Overview



Overall group materiality: \$1,110,000 which approximates 5% of net income.

We planned and scoped our audit for 2018 reflecting the Group structure including its subsidiaries. As a result, we defined Royal Fidelity Merchant Bank and Trust Limited as a significant component, subject to an audit of its complete financial information.

- Implementation of IFRS 9 Financial Instruments – classification, measurement and impairment.
- Impairment of loans and advances to customers classified as being in “Stage 3” under IFRS 9.

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We conducted audit work for Fidelity Bank (Bahamas) Limited and one component, Royal Fidelity Merchant Bank and Trust Limited. A full scope audit was performed for this component as it is the only one that is individually financially significant to the Group. The Group engagement partner was also the engagement partner for the component audit.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.



Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall group materiality	\$1,110,000
How we determined it	Approximately 5% of net income
Rationale for the materiality benchmark applied	We chose net income as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose approximately 5% which is within a range of acceptable benchmark thresholds.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$55,500, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><i>Implementation of IFRS 9 Financial Instruments – classification, measurement and impairment</i></p> <p><i>Refer to notes 2(d), 2(h), 2(n) and 20 to the consolidated financial statements for disclosures of related accounting policies, balances, judgments and estimates.</i></p> <p>The Group adopted the accounting standard IFRS 9 ‘Financial Instruments’ (IFRS 9) effective 1 January 2018. The standard introduced new requirements in respect of the classification, measurement and impairment of financial instruments.</p> <p>The new classification and measurement requirements for financial assets are based on the Group’s business model for how those financial assets are managed and their underlying contractual cash</p>	<p>With respect to the classification and measurement of the financial assets and liabilities as it relates to IFRS 9, we assessed the appropriateness of the accounting policies adopted by the Group against the requirements of the standard.</p> <p>We obtained an understanding of the Group’s business model assessment and, for a sample of instruments, tested the inputs into management’s assessment to determine whether all financial assets met the SPPI criteria. We compared our results to those of management and noted</p>



flow characteristics. The new classification categories for financial assets include:

- Held to Collect – measured at amortised cost if they meet the solely payments of principal and interest (SPPI) test.
- Held to Collect and Sell – measured at fair value through other comprehensive income if they meet the SPPI test.
- Fair value through profit or loss.

Management classified its investment securities and loans and advances to customers as “Held to Collect”, measured at amortised cost. There were no changes in relation to financial liabilities.

The standard also introduced a “three-stage” impairment model which prescribes a forward-looking expected credit loss (ECL) impairment model. The model takes into account reasonable and supportable forward looking information and will generally result in the earlier recognition of impairment losses.

We have focused on this area because there are a number of significant judgements which management are required to determine as a result of the requirements of measuring ECL under IFRS 9 including:

- The allocation of loans and advances to customers to Stage 1, 2 and 3 based on changes in credit quality since initial recognition;
- Determining the criteria for a significant increase in credit risk;
- Determining the Probability of Default (“PD”): PD models are developed based on the Group’s specific historical default and performing data for the given facility and product type. The PD is adjusted for forward looking information.
- Determining Loss Given Default (“LGD”): LGD models are developed based on specific

no exceptions in management’s classification of financial instruments.

With respect to the ECL model, our audit approach included the following:

- We read the Group’s impairment provisioning policies and compared them to the requirements of IFRS 9.
- With the assistance of our internal credit modelling specialists, we evaluated the reasonableness of the ECL methodologies implemented by the Group. We focused on the components pertaining to:
 - Default definition
 - Probability of Default
 - Loss Given Default
 - Exposure at Default
 - Weightings used for multiple economic scenarios
 - Risk parameters
 - Forward-looking information
 - Staging/significant increase in credit risk
 - Lifetime of financial instruments
 - Discounting
 - Simplified modelling approach for less complex models
 - Qualitative overlays
- We tested the key data inputs of the Group’s impairment model on a sample basis to supporting documentation and, where appropriate, external sources.
- For a sample of financial instruments, we tested whether the significant increase in credit risk and default definitions were appropriately applied and the resulting impact of this on the staging of the instruments.
- We evaluated the reasonableness of the application of forward-looking information including the multiple scenarios used by management by testing the completeness and accuracy of the historical macroeconomic data used to external sources. We tested the methodology (including by reference to relevant



historical default data for the given product type.

- Determining Exposure at Default ("EAD").

The implementation of IFRS 9 required the Group to build and implement a new model to measure the expected credit losses for financial instruments measured at amortised cost. The model requires a significant amount of historical data and subjective judgements to be applied and increases the risk surrounding the completeness and accuracy of the inputs to the model and reasonableness of the assumptions used.

Management engaged a credit modelling expert to assist in the more complex aspects of the expected credit loss model.

In accordance with the relevant transitional provisions of IFRS 9, management elected not to restate corresponding figures, with adjustments to the carrying amounts of financial assets and liabilities as of the date of adoption recognised in opening retained earnings and other reserves. The impact of adoption of the new standard resulted in a reduction to opening equity at 1 January 2018 of \$5,893,414.

Impairment of loans and advances to customers classified as being in "Stage 3" under IFRS 9 (as discussed in Note 2(g) of the financial statements)

Refer to notes 2(d), 2(h), 2(n) and 20 to the consolidated financial statements for disclosures of related accounting policies, balances, judgments and estimates.

The expected provision for credit losses on loans and advances to customers for Stage 3 totalled \$8,300,246 at the date of the statement of financial position.

We focused on management's impairment assessment for loans and advances to customers in Stage 3 because the assumptions used for estimating the amount of the ECL provisions are complex and

external sources) and the mathematical accuracy of the forward-looking information factor adjustments to the PDs and LGDs.

- We assessed the reasonableness of qualitative adjustments or overlays derived outside of the specific model output.
- We assessed the adequacy of disclosures in the consolidated financial statements.

We tested the opening equity adjustments in relation to the adoption of the new standard's classification, measurement and impairment requirements as at 1 January, 2018.

Based on the procedures described above, no material exceptions were noted in our assessment of the Group's implementation of IFRS 9.

We evaluated the design and tested the operating effectiveness of relevant controls over the identification of loans and advances to customers past due for more than 90 days, or those otherwise deemed to be Stage 3 impaired.

We tested the calculation of the aging of loans and advances to customers within the credit monitoring system by re-calculating the delinquency days on a



involve significant judgement by management, including:

- Classification of loans and advances to customers as Stage 3 impaired, specifically the completeness of the population of loans and advances to customers included in the Stage 3 ECL calculation.

Mortgage loans

- Valuation of real estate property pledged as collateral for mortgage loans. This is the most significant repayment source for impaired mortgages; the collateral value depends on market trends as well as the circumstances of the specific property and involves judgment and specialised skills. Management engaged a number of independent valuation experts to assist in determining the valuation of real estate property pledged as collateral.
- The estimated costs and time to sell the pledged collateral.
- The recoverable amount of accrued interest on mortgage loans specifically identified as potentially impaired, which is recoverable from collateral held.

Consumer loans

- The level of provision required for consumer loans classified as Stage 3 at the date of the statement of financial position, including consideration of the loss emergence subsequent to the year end.

sample basis based on the repayment history and testing the report used by management to extract the aging information for financial reporting purposes.

We challenged management’s process for staging of loans by examining a sample of loans and advances to customers classified as being in Stage 2 to assess whether they should have been classified as Stage 3 loans and formed our own independent conclusion as to whether such loans should have transferred to Stage 3 at year-end.

Mortgage loans

We assessed the competence and objectivity of the management appointed real estate appraisers to determine whether they are appropriately qualified and whether there is any affiliation to the Group. For a sample of valuation reports, we compared the key assumption used by management’s real estate appraisers (being recent sales) to comparable actual sales data and recent sales of collateral by the Group.

We tested the collateral values recorded by management by comparing them to independent valuation appraisal reports.

We assessed the reasonableness of the collateral values used by management in their calculation of the provision by analysing the trends in collateral values, comparing, on a sample basis, the results of recent collateral valuations and recent sales of collateral by the Group against the previous collateral valuations obtained by management.

We assessed the reasonableness of management’s assumptions used in determining the provisions which included assessing the provisions previously established against amounts collected from collateral sold during the year. Specifically, this entailed consideration of real estate agency fees, legal fees and other costs incurred to sell the pledged collateral as well as the average number of months to sell the property.



We further tested the accuracy of management's calculation of the Stage 3 provision on mortgage loans by performing, on a sample basis, an independent re-calculation of the amounts.

We assessed the reasonableness of the amount recorded by management in respect of the recoverable amount of accrued interest on mortgage loans classified under Stage 3 by comparing the accrued interest amount against the excess of collateral held over the principal amount of such loans.

Consumer loans

For consumer loans, we compared the ECL provision for Stage 3 loans and advances to the provisions indicated as being required by the loss emergence trends during the year, as well as the loss emergence subsequent to the year-end.

No material adjustments were noted as a result of our procedures performed.

Other information

Management is responsible for the other information. The other information comprises the Fidelity Bank (Bahamas) Limited Annual Report for 2018 (but does not include the consolidated financial statements and our auditors' report thereon), which is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



When we read the Fidelity Bank (Bahamas) Annual Report for 2018, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures



in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Myra Lundy-Mortimer.

PricewaterhouseCoopers
Chartered Accountants
Nassau, Bahamas

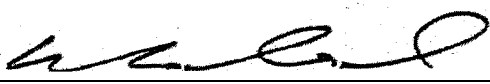
7 May 2019

FIDELITY BANK (BAHAMAS) LIMITED
(Incorporated under the laws of the Commonwealth of The Bahamas)

Consolidated Statement of Financial Position
As of 31 December 2018
(Expressed in Bahamian dollars)

	2018	2017
	\$	\$
ASSETS		
Cash on hand and at banks (Note 4)	106,498,105	103,858,986
Investment securities (Note 5)	83,057,535	88,496,767
Loans and advances to customers (Note 6)	439,699,830	408,644,237
Other assets	4,668,546	2,599,954
Assets held for sale (Note 7)	13,319,401	-
Investments in joint ventures (Note 7)	215,957	13,247,977
Property, plant and equipment (Note 8)	10,441,514	10,922,222
	<u>657,900,888</u>	<u>627,770,143</u>
LIABILITIES		
Deposits from customers (Note 9)	532,734,531	493,516,569
Accrued expenses and other liabilities	1,333,981	1,004,008
Debt securities (Note 10)	33,964,458	43,932,963
	<u>568,032,970</u>	<u>538,453,540</u>
EQUITY		
Capital – ordinary shares (Note 11)	20,380,694	20,363,328
Capital – preference shares (Note 11)	15,000,000	15,000,000
Revaluation reserve	330,695	373,659
Reserve for credit losses (Note 19)	-	4,090,372
Retained earnings	54,156,529	49,489,244
	<u>89,867,918</u>	<u>89,316,603</u>
Total liabilities and equity	<u>657,900,888</u>	<u>627,770,143</u>

APPROVED BY THE BOARD OF DIRECTORS AND SIGNED ON ITS BEHALF BY:



Director



Director

30 April 2019

Date

The accompanying notes are an integral part of these consolidated financial statements.

FIDELITY BANK (BAHAMAS) LIMITED

Consolidated Statement of Comprehensive Income For the Year Ended 31 December 2018 (Expressed in Bahamian dollars)

	2018 \$	2017 \$
INCOME		
Interest income		
Bank deposits, loans and advances	63,497,046	58,057,752
Investment securities	3,395,294	3,229,483
	<u>66,892,340</u>	<u>61,287,235</u>
Interest expense	<u>(12,675,024)</u>	<u>(14,830,790)</u>
Net interest income	54,217,316	46,456,445
Fees and commissions	2,887,483	2,821,528
Rental income	80,625	80,625
Other income	321,231	313,230
	<u>57,506,655</u>	<u>49,671,828</u>
EXPENSES		
Provision for loan losses (Note 6)	12,737,629	8,960,594
General and administrative (Note 13)	11,729,036	10,314,128
Salaries and employee benefits (Note 14)	11,393,173	10,258,702
Depreciation and amortisation (Note 8)	1,448,736	1,432,541
	<u>37,308,574</u>	<u>30,965,965</u>
Operating profit	20,198,081	18,705,863
Share of profits of joint ventures (Note 7)	42,141	41,013
Net income from continuing operations	20,240,222	18,746,876
Profits of assets held for sale (Note 7)	2,124,247	2,306,652
Net income and total comprehensive income	<u>22,364,469</u>	<u>21,053,528</u>
Attributable to:		
Ordinary shareholders		
Net income	21,389,469	20,078,118
	<u>21,389,469</u>	<u>20,078,118</u>
Preference shareholders		
Net income	975,000	975,410
	<u>975,000</u>	<u>975,410</u>
	<u>22,364,469</u>	<u>21,053,528</u>
Earnings per share (Note 12)	0.74	0.70

The accompanying notes are an integral part of these consolidated financial statements.

FIDELITY BANK (BAHAMAS) LIMITED

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2018

(Expressed in Bahamian dollars)

	Capital – Ordinary Shares \$	Capital – Preference Shares \$	Revaluation Reserve \$	Reserve for Credit Losses \$	Retained Earnings \$	Total \$
As of 31 December 2017	20,363,328	15,000,000	373,659	4,090,372	49,489,244	89,316,603
Effects of changes in accounting policies (Note 20)	-	-	-	(4,090,372)	(1,803,042)	(5,893,414)
As of 1 January 2018	<u>20,363,328</u>	<u>15,000,000</u>	<u>373,659</u>	-	<u>47,686,202</u>	<u>83,423,189</u>
Comprehensive income						
Net income	-	-	-	-	22,364,469	22,364,469
Total comprehensive income	-	-	-	-	22,364,469	22,364,469
Transfers						
Depreciation transfer	-	-	(42,964)	-	42,964	-
Appropriation for credit losses	-	-	-	-	-	-
Total transfers	-	-	(42,964)	-	42,964	-
Transactions with owners						
Issuance of ordinary shares	17,366	-	-	-	48,562	65,928
Dividends – preference shares	-	-	-	-	(975,000)	(975,000)
Dividends – ordinary shares	-	-	-	-	(15,010,668)	(15,010,668)
Total transactions with owners	<u>17,366</u>	-	-	-	<u>(15,937,106)</u>	<u>(15,919,740)</u>
As of 31 December 2018	<u>20,380,694</u>	<u>15,000,000</u>	<u>330,695</u>	<u>-</u>	<u>54,156,529</u>	<u>89,867,918</u>
Dividends per share	<u>0.52</u>	<u>0.65</u>				
As of 1 January 2017	<u>20,333,243</u>	<u>15,000,000</u>	<u>392,251</u>	<u>3,855,116</u>	<u>43,981,810</u>	<u>83,562,420</u>
Comprehensive income						
Net income	-	-	-	-	21,053,528	21,053,528
Total comprehensive income	-	-	-	-	21,053,528	21,053,528
Transfers						
Depreciation transfer	-	-	(18,592)	-	18,592	-
Appropriation for credit losses	-	-	-	235,256	(235,256)	-
Total transfers	-	-	(18,592)	235,256	(216,664)	-
Transactions with owners						
Issuance of ordinary shares	30,085	-	-	-	79,315	109,400
Dividends – preference shares	-	-	-	-	(975,410)	(975,410)
Dividends – ordinary shares	-	-	-	-	(14,433,335)	(14,433,335)
Total transactions with owners	<u>30,085</u>	-	-	-	<u>(15,329,430)</u>	<u>(15,299,345)</u>
As of 31 December 2017	<u>20,363,328</u>	<u>15,000,000</u>	<u>373,659</u>	<u>4,090,372</u>	<u>49,489,244</u>	<u>89,316,603</u>
Dividends per share	<u>0.50</u>	<u>0.65</u>				

The accompanying notes are an integral part of these consolidated financial statements.

FIDELITY BANK (BAHAMAS) LIMITED

Consolidated Statement of Cash Flows For the Year Ended 31 December 2018 (Expressed in Bahamian dollars)

	2018	2017
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income from continuing operations	20,240,222	18,746,876
Adjustments for:		
Interest income	(66,892,340)	(61,287,235)
Interest expense	12,675,024	14,830,790
Loss on disposal of property, plant and equipment	2,500	-
Salaries and employee benefits	65,928	109,400
Provision for loan losses	12,737,629	8,960,594
Depreciation and amortisation	1,448,736	1,432,541
Share of profits of joint ventures	(42,141)	(41,013)
Interest received	61,523,399	55,191,221
Interest paid	(13,859,128)	(14,199,272)
(Increase)/Decrease in operating assets		
Term deposits with original contractual maturities greater than three (3) months	(30,000,000)	-
Mandatory reserve deposits	(2,709,425)	(2,355,950)
Loans and advances to customers	(44,308,434)	(24,701,620)
Other assets	(2,068,592)	561,410
Increase/(Decrease) in operating liabilities		
Deposits from customers	40,433,561	62,042,392
Accrued expenses and other liabilities	329,973	133,100
Net cash from/(used in) operating activities	<u>(10,423,088)</u>	<u>59,423,234</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash from assets held for sale	1,846,195	-
Dividends received	32,812	36,850
Purchases of investment securities	(971,429)	(11,373,301)
Proceeds from sales/maturities of investment securities	6,401,400	2,300
Purchases of property, plant and equipment	(972,528)	(1,397,226)
Proceeds from disposals of property, plant and equipment	2,000	-
Net cash from/(used in) investing activities	<u>6,338,450</u>	<u>(12,731,377)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Redemptions of debt securities	(10,000,000)	(5,000,000)
Dividends paid on preference shares	(975,000)	(975,410)
Dividends paid on ordinary shares	(15,010,668)	(14,433,335)
Net cash used in financing activities	<u>(25,985,668)</u>	<u>(20,408,745)</u>
Net increase/(decrease) in cash and cash equivalents	(30,070,306)	26,283,112
Cash and cash equivalents as of the beginning of the year	<u>83,451,286</u>	<u>57,168,174</u>
Cash and cash equivalents as of the end of the year (Note 4)	<u><u>53,380,980</u></u>	<u><u>83,451,286</u></u>

See Note 11 for significant non-cash transactions.

The accompanying notes are an integral part of these consolidated financial statements.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements

31 December 2018

1. General Information

Fidelity Bank (Bahamas) Limited (the Bank) is incorporated under the Companies Act, 1992 of the Commonwealth of The Bahamas (The Bahamas) and is licensed under the Banks and Trust Companies Regulation Act, 2000 to carry on banking business in The Bahamas. Further, the Bank's joint venture Royal Fidelity Merchant Bank & Trust Limited (RFMBT), a company incorporated in The Bahamas, is licensed under the Banks and Trust Companies Regulation Act, 2000 to carry on trust and banking business in The Bahamas, and under the Securities Industry Act, 2011 to deal, arrange, manage and advise on securities in The Bahamas. RFMBT has subsidiaries incorporated in Barbados and licensed under the Financial Institutions Act, 1996 to carry on trust, banking and securities business in Barbados.

The Bank, and its subsidiaries and joint ventures (Note 3), collectively referred to as the Group, offer a full range of: retail banking services, including internet and telephone banking, acceptance of deposits, granting of loans, credit card services and the provision of foreign exchange services through each of its four (4) branches in New Providence, its branch in Grand Bahama and its branch in Abaco; and private banking, trustee, investment management, corporate finance, share registrar and transfer agency, pension, administration, brokerage and investment advisory services.

The ordinary shares of the Bank are listed and traded on The Bahamas International Securities Exchange (BISX). Fidelity Bank & Trust International Limited (the Parent), a company incorporated in The Bahamas, owns 74.61% (2017: 74.62%) of the outstanding ordinary shares of the Bank.

The registered office of the Bank is situated at #51 Frederick Street, Nassau, Bahamas.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), and under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Notes 2(d), 2(h), 2(n) and 20.

New standards, amendments and interpretations adopted by the Group

Effective 1 January 2018, the Group adopted IFRS 9 *Financial Instruments* (IFRS 9) and IFRS 15 *Revenue from Contracts with Customers* (IFRS 15), which resulted in changes in accounting policies and adjustments to amounts previously recognised in the consolidated financial statements, as well as expanded notes disclosures.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued)

31 December 2018

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

New standards, amendments and interpretations adopted by the Group (continued)

In accordance with the relevant transitional provisions of IFRS 9, the Group elected not to restate corresponding figures, with adjustments to the carrying amounts of financial assets and liabilities as of the date of adoption recognised in opening retained earnings and other reserves of the current year. Accordingly, the expanded notes disclosure requirements are only applicable to the current year, with corresponding year notes disclosures being presented consistent with the presentations made in the prior year. The adoption of IFRS 9 resulted in changes in the Group's accounting policies for recognition, classification, measurement and impairment of financial assets, as disclosed in Note 20; there were no changes in relation to financial liabilities. The adoption also significantly expanded the notes disclosures.

The adoption of IFRS 15 did not significantly impact the Group's accounting policies, measurement of revenue or notes disclosures in the consolidated financial statements.

Other standards and amendments and interpretations to published standards that became effective for the Group's financial year beginning on 1 January 2018 were either not relevant or not significant to the Group's operations and accordingly did not have a material impact on the Group's accounting policies or consolidated financial statements.

New standards, amendments and interpretations not yet adopted by the Group

With the exception of IFRS 16 *Leases* (IFRS 16), the application of new standards and amendments and interpretations to existing standards that have been published but are not yet effective are not expected to have a material impact on the Group's accounting policies or consolidated financial statements in the financial period of initial application.

IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 *Leases* (IAS 17). Lessees will recognise a 'right of use' asset and a corresponding financial liability on the statement of financial position. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The Group has not yet assessed the full impact of adopting IFRS 16, which is effective for financial periods beginning on or after 1 January 2019.

(b) Principles of consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

2. Summary of Significant Accounting Policies (Continued)

(b) Principles of consolidation (continued)

Subsidiaries (continued)

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

Joint ventures

Joint ventures are entities over which the Group has joint control, and the operations are generally governed by contractual arrangements. Investments in joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. The Group's share of post-acquisition profits or losses and other comprehensive income or loss is recognised in the consolidated statement of comprehensive income consistent with the recognition by the joint venture, and its share of post-acquisition movements in reserves is recognised directly in reserves, with corresponding adjustments to the carrying amount of the investments in joint ventures. Dividends received from joint ventures are recognised as a reduction in the carrying amount of the investment in joint venture.

When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of joint ventures are changed where necessary to ensure consistency with the policies adopted by the Group.

The Group determines at each date of the statement of financial position whether there is any objective evidence that an investment in joint venture is impaired. If this is the case, the Group calculates the amount of the impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount adjacent to 'share of profits or losses of joint ventures' in the consolidated statement of comprehensive income.

(c) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Bahamian dollars (B\$), which is the Bank's functional and presentation currency.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

2. Summary of Significant Accounting Policies (Continued)

(d) Financial assets (continued)

Classification and measurement (continued)

Financial assets are reclassified only when the business model for the relevant class of financial assets, as a whole, changes and such reclassification is prospective and is effective from the first financial period subsequent to the change in business model.

Initial recognition and measurement

The Group measures financial assets at their fair value, adjusted for transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset, such as fees and commissions, except financial assets at fair value through profit or loss. Transaction costs of financial assets at fair value through profit or loss are expensed as incurred. Immediately following initial recognition, an allowance for ECL is recognised for financial assets measured at amortised cost, which results in a loss being recognised in net income in the consolidated statement of comprehensive income when a financial asset is newly originated.

All purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to originate, purchase or sell the asset.

Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all risks and rewards of ownership. If the Group has neither transferred nor retained substantially all the risks and rewards of ownership, an assessment is made whether the Group has retained control of the financial assets.

Where the Group has not retained control, financial assets are derecognised and any rights or obligations retained or created as part of the transaction are recognised as separate assets or liabilities. Alternatively, where the Group has retained control, the Group continues to recognise the financial assets to the extent of its continuing involvement in the financial assets.

Gains or losses arising from sales of financial assets are recognised in the consolidated statement of comprehensive income as a part of net income in the financial period in which they arise.

Modifications

The Group may renegotiate or otherwise modify the original contractual cash flows of loans and advances to customers, which requires the Group to assess whether or not the new terms are substantially different to the original terms. This is done by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced that substantially affect the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

2. Summary of Significant Accounting Policies (Continued)

(c) Foreign currency translation (continued)

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income as a part of net income. Translation differences on monetary financial assets measured at fair value through profit or loss are included as a part of the fair value gains and losses.

(d) Financial assets

Classification and measurement

Effective 1 January 2018, the Group classifies its financial assets, comprising cash at banks, investment securities, loans and advances to customers and other receivables, as financial assets at amortised cost.

The classification and subsequent measurement of financial assets depend on the Group's business model for managing the asset, and the cash flow characteristics of the asset.

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at fair value through profit or loss, are measured at amortised cost, adjusted by an allowance for expected credit losses (ECL), which is recognised and measured as disclosed in Note 2(g).

The business model represents the Group's objectives in managing financial assets in order to generate cash flows. That is, whether the objective is solely to collect the contractual cash flows from the financial assets or is to collect both the contractual cash flows and cash flows arising from the sale of financial assets. If neither of these is applicable, for example financial assets held for trading purposes, then the financial assets are classified as part of 'other' business model and measured at fair value through profit or loss. Factors considered by the Group in determining the business model for a group of financial assets include: past experience regarding the manner in which the cash flows for the financial assets were collected; the manner in which the performance of financial assets is evaluated and reported to key management personnel; the approach to assessing and managing risks associated with the financial assets; and where applicable, the compensation structure for personnel involved in the processes surrounding the financial assets. Critical judgments applied by the Group in determining the business models for its financial assets are disclosed in Note 20.

Where the business model is to hold financial assets to collect contractual cash flows or to collect contractual cash flows and cash flows arising from sales, the Group assesses whether the cash flows of the financial asset represents SPPI. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, specifically that interest rate considerations are restricted to the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss. The SPPI assessment is performed on initial recognition of a financial asset and is not subsequently reassessed. Critical judgments applied by the Group in assessing the SPPI test are disclosed in Note 20.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

2. Summary of Significant Accounting Policies (Continued)

(d) Financial assets (continued)

Classification and measurement (continued)

Financial assets are reclassified only when the business model for the relevant class of financial assets, as a whole, changes and such reclassification is prospective and is effective from the first financial period subsequent to the change in business model.

Initial recognition and measurement

The Group measures financial assets at their fair value, adjusted for transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset, such as fees and commissions, except financial assets at fair value through profit or loss. Transaction costs of financial assets at fair value through profit or loss are expensed as incurred. Immediately following initial recognition, an allowance for ECL is recognised for financial assets measured at amortised cost, which results in a loss being recognised in net income in the consolidated statement of comprehensive income when a financial asset is newly originated.

All purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to originate, purchase or sell the asset.

Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all risks and rewards of ownership. If the Group has neither transferred nor retained substantially all the risks and rewards of ownership, an assessment is made whether the Group has retained control of the financial assets.

Where the Group has not retained control, financial assets are derecognised and any rights or obligations retained or created as part of the transaction are recognised as separate assets or liabilities. Alternatively, where the Group has retained control, the Group continues to recognise the financial assets to the extent of its continuing involvement in the financial assets.

Gains or losses arising from sales of financial assets are recognised in the consolidated statement of comprehensive income as a part of net income in the financial period in which they arise.

Modifications

The Group may renegotiate or otherwise modify the original contractual cash flows of loans and advances to customers, which requires the Group to assess whether or not the new terms are substantially different to the original terms. This is done by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced that substantially affect the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued)
31 December 2018

2. Summary of Significant Accounting Policies (Continued)

(d) Financial assets (continued)

Modifications (continued)

- Significant change in the interest rate.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a new asset at fair value and recalculates a new effective interest rate for the financial asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether: the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments; and the cash flows of the new financial asset represent SPPI. Differences in the carrying amount are also recognised in net income as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in net income. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

(e) Sale and repurchase agreements

Financial assets sold subject to repurchase agreements (repos) are not derecognised but reclassified in the consolidated financial statements as pledged assets when the transferee has the right by contract to sell or repledge the collateral; the counterparty liability is included in borrowings, when applicable. The financial assets continue to be measured in accordance with accounting policies for financial assets.

Financial assets purchased under agreements to resell (reverse repos) are recognised as loans and advances to the applicable counterparty, and measured in accordance with accounting policies for loans and advances to customers. The difference between the sale and repurchase price is recognised as interest income over the life of the agreements using the effective interest method.

(f) Non-performing financial assets

All loans and advances to customers on which principal or interest payments are overdue in excess of ninety (90) days are classified by management as non-performing and are considered credit-impaired financial assets for the purposes of assessing ECL.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued)

31 December 2018

2. Summary of Significant Accounting Policies (Continued)

(g) Impairment of financial assets at amortised cost

The Group assesses, taking into consideration forward looking factors, the ECL for financial assets at amortised costs and for the exposures arising from loan commitments and financial guarantees. The Group measures ECL and recognises an allowance for ECL at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes; (ii) time value of money; and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Financial assets measured at amortised cost are presented in the consolidated statement of financial position, net of the allowance for ECL, which is also referred to as provision for loan losses in relation to loans and advances to customers. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the consolidated statement of financial position.

The Group applies a three (3) stage model for impairment, based on changes in credit quality since initial recognition. A financial asset that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next twelve (12) months (12-month ECL) or until contractual maturity, if shorter. If the Group identifies a significant increase in credit risk (SICR) since initial recognition, the financial asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis (lifetime ECL), that is, up until contractual maturity but considering expected prepayments. Critical judgments in determining SICR are disclosed in Note 20.

If the Group determines that a financial asset is credit-impaired, the financial asset is transferred to Stage 3 and its ECL is measured as a lifetime ECL. The Group's definition of credit-impaired financial assets and definition of default are disclosed in Note 20. For financial assets that are purchased or originated credit-impaired (POCI Assets), the ECL is always measured as a lifetime ECL.

Information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward looking information in the ECL models is disclosed in Note 20.

As an exception, for certain financial instruments, such as credit cards and overdrafts, that may include both a loan and an undrawn commitment component, the Group measures ECL over the period that the Group is exposed to credit risk based on historical experience, that is, until the ECL would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. This is because contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to such contractual notice period.

The calculation of ECL of a collateralised financial asset reflects the cash flows that may result from foreclosures less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

2. Summary of Significant Accounting Policies (Continued)

(g) Impairment of financial assets at amortised cost (continued)

The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the ECL is recognised in the consolidated statement of comprehensive income as a part of net income. Decreases in previously recognised ECL are recognised against the same financial statement line item. Financial assets are written-off, in whole or in part, when the Group has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Recoveries of accounts previously written off are recognised directly in the consolidated statement of comprehensive income as a part of the ECL expense included in net income.

(h) Property, plant and equipment

Property, plant and equipment, other than land and buildings, are carried at historical cost less accumulated depreciation and amortisation. Historical cost includes expenditure that is directly attributable to the acquisition of an item. Land and buildings, which comprise branches and offices for the Group's operations, are carried at fair value based upon periodic independent appraisals that are commissioned at intervals generally not exceeding three (3) years, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance are charged to the consolidated statement of comprehensive income as a part of net income during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to "revaluation reserve" in equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are charged to the consolidated statement of comprehensive income as a part of net income. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the consolidated statement of comprehensive income and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings.

Land is not depreciated. Depreciation and amortisation on other assets are calculated using the straight-line method to allocate costs (net of residual values) over estimated useful lives as follows:

	Estimated Useful Life
Buildings	30 – 50 years
Furniture and fixtures	3 – 10 years
Motor vehicles	3 – 5 years
Computer software and office equipment	3 – 10 years
Leasehold improvements	Lesser of lease term and 3 – 10 years

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

2. Summary of Significant Accounting Policies (Continued)

(h) Property, plant and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of the statement of financial position. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in the consolidated statement of comprehensive income as a part of net income. When revalued assets are sold, amounts included in revaluation reserve are transferred directly to retained earnings.

(i) Deposits from customers

Deposits from customers are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Deposits from customers are derecognised when the financial liability has been extinguished.

(j) Borrowings

Borrowings, which include debt securities, are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently recognised at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Preference shares, which are mandatorily redeemable on a specific date, are classified as financial liabilities. The dividends on these preference shares are recognised in the consolidated statement of comprehensive income as interest expense.

(k) Provisions

Provisions for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

(l) Share capital

Share issue costs

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

2. Summary of Significant Accounting Policies (Continued)

(l) Share capital (continued)

Dividends

Dividends on ordinary shares, and preference shares classified as equity, are recognised in equity in the financial period in which they are approved by the Bank's Directors. Dividends declared after the date of the statement of financial position, but before the consolidated financial statements are issued, are dealt with in the subsequent events note.

(m) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

(n) Income and expense recognition

Interest income and expense are recognised in the consolidated statement of comprehensive income for all financial instruments measured at amortised cost using the effective interest method. Loan origination fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loans and advances to customers.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the: gross carrying amount of the financial asset (that is, its amortised cost before any allowance for ECL), except for financial assets that are credit-impaired, including those purchased or originated credit-impaired, which in such cases use the net carrying amount (that is, amortised cost after allowance for credit losses); or net carrying amount of the financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options). The calculation includes all fees and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees and commissions for services where the customer simultaneously receives and consumes the benefits provided by the Group are recognised over time on a straight-line basis as the services are rendered. Such fees and commissions comprise recurring fees for account maintenance and account servicing. Other fees and commissions are recognised at a point in time when the Group satisfies its performance obligation, usually upon execution of the underlying transaction, which is generally at the time the customer's account is charged. The amount of fees and commissions received or receivable represents the transaction price for the services identified as distinct performance obligations. Such fees and commissions comprise fees for cash settlements, collections or disbursements, as well as fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

2. Summary of Significant Accounting Policies (Continued)

(n) Income and expense recognition (continued)

Custody service and other similar fees are recognised based on the applicable service contracts, usually rateably over the period in which the service is provided, as the customer simultaneously receives and consumes the benefits provided by the Group. Variable fees, comprising performance linked fees, are recognised only to the extent that the Group determines that it is highly probable that a significant reversal will not occur.

Dividend income is recognised in the consolidated statement of comprehensive income when the Group's right to receive payment has been established, except for dividends received from investments in joint ventures, the accounting policy for which is disclosed in Note 2(b).

The Group operates a loyalty programme in which customers accumulate points, which entitle the customers to goods and services provided by third parties. Revenue from the points is recognised when the points are redeemed or when they expire after the initial transaction. The amount of the revenue is estimated based on the number of points redeemed relative to the total number expected to be redeemed. A contract liability is recognised for the amount of the fair value of points expected to be redeemed until they are actually redeemed or expire.

Other income and expenses are recognised on the accrual basis.

(o) Leases

The Group is the lessee

The leases entered into by the Group are operating leases. The total payments made under operating leases are charged to the consolidated statement of comprehensive income as a part of net income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial period in which termination takes place.

The Group is the lessor

Leases comprise operating leases. Lease income is recognised over the term of the lease on a straight-line basis.

(p) Employee benefits

The Group's employees participate in a defined contribution pension plan of a related party, administered by trustees that include key management personnel of the Group.

A defined contribution pension plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Group's contributions are recognised as employee benefits expense in the consolidated statement of comprehensive income when they are due. The Group has no further payment obligations once the recognised contributions have been paid.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

2. Summary of Significant Accounting Policies (Continued)

(q) Taxation

Under the current laws of The Bahamas, the country of domicile of the Bank and its subsidiaries, there are no income, capital gains or other corporate taxes imposed. The Group's operations do not subject it to taxation in any other jurisdiction.

(r) Assets held for sale

Assets, or disposal groups, are classified as held for sale in the consolidated statement of financial position if the respective carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve (12) months of the end of the financial period. The relevant assets or disposal groups are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management has approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within twelve (12) months; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Assets or disposal groups classified as held for sale in the current financial period are presented consistently in the corresponding figures to reflect the classification at the end of the corresponding period.

A disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Disposal groups held for sale, as a whole, are measured at the lower of their carrying amount and fair value less costs to sell. Liabilities directly associated with disposal groups that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Financial performance and cash flows related to assets or disposal groups held for sale, if applicable, are disclosed separately from continuing operations with corresponding figures being represented.

(s) Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and unrestricted deposits with banks that have original contractual maturities of three (3) months or less.

(t) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, which is the person or group responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee of the Group.

Income and expenses directly associated with each segment are included in determining operating segment performance. The Group has identified its sole operating and reportable segment as retail banking.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

2. Summary of Significant Accounting Policies (Continued)

(u) Fiduciary activities

The Group acts as custodian, trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, investment funds and other entities. These assets are excluded from these consolidated financial statements, as they do not belong to the Group.

(v) Corresponding figures

Where necessary, corresponding figures are adjusted to conform with changes in presentation in the current year, except as otherwise disclosed.

3. Subsidiaries and Joint Ventures

The Group, directly or indirectly, has interest in the following entities:

	Country of Incorporation	% Holding
Bahamas Automated Clearing House Limited	Bahamas	14.29%
Freedom Points Limited	Bahamas	100.00%
Pinnacle Cars Limited	Bahamas	100.00%
Royal Fidelity Merchant Bank & Trust Limited	Bahamas	50.00%
Bahamas Central Securities Depository Limited	Bahamas	16.67%
BF Company Limited	Bahamas	50.00%
HNW Company Limited	Bahamas	50.00%
R.F.C. Markets Limited	Bahamas	50.00%
RF Executors Ltd.	Bahamas	50.00%
RFMBT Holdings Limited	St. Lucia	50.00%
Royal Fidelity Merchant Bank & Trust (Barbados) Limited	Barbados	50.00%
Royal Fidelity Capital Markets (Barbados) Limited	Barbados	50.00%
Royal Fidelity Pension & Investment Services Limited	Bahamas	50.00%
Royal Fidelity Share Registrars & Transfer Agents Limited	Bahamas	50.00%
TG Company Limited	Bahamas	50.00%
West Bay Development Company Limited	Bahamas	100.00%

Subsidiaries

Freedom Points Limited is a dormant company. The Group's two (2) remaining subsidiaries, Pinnacle Cars Limited and West Bay Development Company Limited, are holding companies for vehicles and land and buildings, respectively, owned by the Group.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

3. Subsidiaries and Joint Ventures (Continued)

Joint ventures

The Group's joint ventures carry out various activities, certain of which are disclosed in Note 1. Pursuant to a joint venture agreement among RFMBT, the Bank and RBC Holdings (Bahamas) Limited (RBC), a company incorporated in The Bahamas and ultimately owned by Royal Bank of Canada, RFMBT operates as a joint venture with rights to conduct the business of merchant banking in The Bahamas and Barbados. BF Company Limited, HNW Company Limited, RF Executors Ltd. and TG Company Limited are nominee companies utilised in the operations of RFMBT.

Bahamas Central Securities Depository Limited (BCSD) is a joint venture among RFMBT, BISX and a registrar and transfer agent incorporated and licensed in The Bahamas, with each holding 33.33% of the outstanding ordinary shares. BCSD provides registrar and transfer agency services to companies with securities listed and traded on BISX.

Bahamas Automated Clearing House Limited (BACH) is a joint venture among the seven (7) members of the Clearing Banks Association (the CBA) of The Bahamas, of which the Bank is a member. BACH operates a secure interbank settlement system linking clearing banks in The Bahamas. Each member of the CBA has an equal holding of the outstanding ordinary shares of BACH and equal control over its financial and operating policies.

4. Cash on Hand and at Banks

	2018	2017
	\$	\$
Cash on hand	2,785,120	2,368,458
Current accounts at banks	50,595,860	81,082,828
Term deposits	30,000,000	-
Mandatory reserve deposits	<u>23,117,125</u>	<u>20,407,700</u>
	106,498,105	103,858,986
Accrued interest	<u>-</u>	<u>-</u>
Total	<u>106,498,105</u>	<u>103,858,986</u>

Mandatory reserve deposits are placed with the Central Bank of The Bahamas (the Central Bank) to meet requirements of the Group's licences and are not available for use in the Group's day to day operations. Cash on hand, and mandatory reserve deposits and other deposits with the Central Bank are non-interest bearing. Deposits with other banks earn interest at rates ranging from 0.00% to 2.50% (2017: 0.00% to 1.50%) per annum.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

4. Cash on Hand and at Banks (Continued)

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise:

	2018	2017
	\$	\$
Cash on hand	2,785,120	2,368,458
Current accounts at banks	50,595,860	81,082,828
Term deposits	30,000,000	-
Mandatory reserve deposits	<u>23,117,125</u>	<u>20,407,700</u>
	106,498,105	103,858,986
Term deposits – contractual maturities greater than three (3) months	(30,000,000)	-
Mandatory reserve requirements	<u>(23,117,125)</u>	<u>(20,407,700)</u>
Total	<u>53,380,980</u>	<u>83,451,286</u>

5. Investment Securities

	2018	2017
	\$	\$
Amortised cost		
<u>Stage 1 – ECL</u>		
<i>Level 2</i>		
Government debt securities	<u>82,047,200</u>	<u>-</u>
Financial assets at fair value through profit or loss		
<i>Level 2</i>		
Government debt securities	<u>-</u>	<u>87,477,171</u>
Total – all levels	82,047,200	87,477,171
Accrued interest	<u>1,010,335</u>	<u>1,019,596</u>
Total	<u>83,057,535</u>	<u>88,496,767</u>

Government securities principally comprise Bahamas Government Registered Stock with maturities ranging from 2019 to 2038 (2017: 2018 to 2037) and with either fixed interest rates ranging from 3.01% to 5.40% (2017: 3.01% to 5.40%) per annum or variable interest rates ranging from 0.01% to 0.63% (2017: 0.01% to 0.63%) above the B\$ Prime rate of 4.25% per annum.

As of 31 December 2017, the cost of investment securities totalled \$87,477,171.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

6. Loans and Advances to Customers

	2018 \$	2017 \$
Mortgages	63,473,542	70,661,192
Consumer and other loans	<u>395,987,244</u>	<u>351,663,334</u>
	459,460,786	422,324,526
Unamortised loan origination fees	(9,601,918)	(8,559,450)
Accrued interest	5,391,658	5,240,282
Provision for loan losses	<u>(15,550,696)</u>	<u>(10,361,121)</u>
Total	<u>439,699,830</u>	<u>408,644,237</u>

The effective interest rate earned on loans and advances for the year ended 31 December 2018 was 14.69% (2017: 14.28%).

Movements in provision for loan losses are as follows:

	2018			2017		
	Mortgages \$	Consumer and Other \$	Total \$	Mortgages \$	Consumer and Other \$	Total \$
Balance as of the beginning of the year	3,323,728	7,037,393	10,361,121	3,979,581	6,468,929	10,448,510
Effects of changes in accounting policies	(350,353)	6,243,767	5,893,414	-	-	-
Provisions	2,350,159	10,387,470	12,737,629	(534,096)	9,494,690	8,960,594
Write-offs	<u>(1,167,256)</u>	<u>(12,274,212)</u>	<u>(13,441,468)</u>	<u>(121,757)</u>	<u>(8,926,226)</u>	<u>(9,047,983)</u>
Balance as of the end of the year	<u>4,156,278</u>	<u>11,394,418</u>	<u>15,550,696</u>	<u>3,323,728</u>	<u>7,037,393</u>	<u>10,361,121</u>

Recoveries of amounts previously written off recognised in provision loan losses in the consolidated statement of comprehensive income totalled \$701,866 (2017: \$642,614).

The provision for loan losses represents 3.46% (2017: 2.50%) of the total loan portfolio, excluding accrued interest, and 69.12% (2017: 38.76%) of total non-performing loans. As of 31 December 2018, principal balances of non-performing loans totalled \$22,498,829 (2017: \$26,728,528), representing 5.00% (2017: 6.46%) of the total loan portfolio, excluding accrued interest.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

7. Investments in Joint Ventures

	2018 \$	2017 \$
RFMBT – Assets held for sale	13,319,401	13,041,349
BACH	<u>215,957</u>	<u>206,628</u>
Total	<u>13,535,358</u>	<u>13,247,977</u>

As of the date of the transaction of the Bank acquiring 50.00% of the outstanding shares of RFMBT from the Parent, the purchase price was \$8,900,000, based on a valuation performed by an independent accounting firm. The fair value of net assets acquired totalled \$5,511,500.

A condition of approval of the transaction by the Central Bank, required the Parent to guarantee the Bank against operating losses of RFMBT and any capital contributions necessary for RFMBT to comply with capital adequacy regulations.

RFMBT

During the year, the Group initiated a process to dispose of, by way of sale, its investment in the joint venture, RFMBT. Accordingly, the consolidated statement of financial position discloses assets held for sale, which comprise the investment in joint venture related to RFMBT.

Movements in investment in joint venture comprise:

	2018 \$	2017 \$
Balance as of the beginning of the year	13,041,349	10,734,697
Share of profits of joint venture	2,124,247	2,306,652
Dividends received	<u>(1,846,195)</u>	<u>-</u>
Balance as of the end of the year	<u>13,319,401</u>	<u>13,041,349</u>

The unaudited consolidated financial information of the joint venture as of 31 December 2018, and for the year then ended, is as follows:

	2018 \$	2017 \$
ASSETS		
Cash on hand and at banks	80,040,885	81,515,539
Investment securities	35,729,124	19,384,732
Loans and advances to customers	10,657,407	11,218,489
Other assets	2,217,189	3,362,658
Investments in joint ventures	880,100	943,310
Intangible asset	130,348	260,695
Property, plant and equipment	<u>1,196,030</u>	<u>300,672</u>
Total assets	<u>130,851,083</u>	<u>116,986,095</u>

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

7. Investments in Joint Ventures (Continued)

RFMBT (continued)

	2018 \$	2017 \$
LIABILITIES		
Deposit from customers	105,799,955	92,765,932
Accrued expenses and other liabilities	<u>5,189,327</u>	<u>4,914,466</u>
Total liabilities	<u>110,989,282</u>	<u>97,680,398</u>
EQUITY		
Capital	11,000,000	11,000,000
Retained earnings	<u>8,861,801</u>	<u>8,305,697</u>
Total equity	<u>19,861,801</u>	<u>19,305,697</u>
Total liabilities and equity	<u>130,851,083</u>	<u>116,986,095</u>
INCOME		
Interest income	1,843,018	1,847,702
Interest expense	(169,659)	(232,678)
Fees and commissions	10,660,782	9,993,188
Other	<u>(237,426)</u>	<u>57,616</u>
	<u>12,096,715</u>	<u>11,665,828</u>
EXPENSES		
Salaries and employee benefits	3,908,801	3,649,297
General and administrative	3,574,184	3,307,209
Allowance for impairment losses	240,000	-
Depreciation and amortisation	238,881	221,723
Provision for loan losses	<u>62,377</u>	<u>57,645</u>
	<u>8,024,243</u>	<u>7,235,874</u>
Operating profit	4,072,472	4,429,954
Share of profits of joint ventures	<u>179,379</u>	<u>209,101</u>
Net income before tax	4,251,851	4,639,055
Taxation	<u>(3,357)</u>	<u>(25,749)</u>
Net income and total comprehensive income	<u>4,248,494</u>	<u>4,613,306</u>

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

7. Investments in Joint Ventures (Continued)

BACH

Movements in investment in joint venture comprise:

	2018 \$	2017 \$
Balance as of the beginning of the year	206,628	202,465
Share of profits of joint venture	42,141	41,013
Dividends received	<u>(32,812)</u>	<u>(36,850)</u>
Balance as of the end of the year	<u>215,957</u>	<u>206,628</u>

The unaudited financial information of the joint venture as of 31 December 2018, and for the year then ended, is as follows:

	2018 \$	2017 \$
ASSETS		
Cash on hand and at banks	1,371,905	1,247,520
Other assets	154,462	159,316
Property, plant and equipment	<u>45,793</u>	<u>75,484</u>
Total assets	<u>1,572,160</u>	<u>1,482,320</u>
LIABILITIES		
Accrued expenses and other liabilities	<u>60,442</u>	<u>35,937</u>
Total liabilities	<u>60,442</u>	<u>35,937</u>
EQUITY		
Share capital	70,000	70,000
Retained earnings	<u>1,441,718</u>	<u>1,376,383</u>
Total equity	<u>1,511,718</u>	<u>1,446,383</u>
Total liabilities and equity	<u>1,572,160</u>	<u>1,482,320</u>
INCOME		
Fees and commissions	1,050,732	1,041,810
Interest income	9,921	12,357
Other	<u>14,350</u>	<u>16,425</u>
	<u>1,075,003</u>	<u>1,070,592</u>

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

7. Investments in Joint Ventures (Continued)

BACH (continued)

	2018	2017
	\$	\$
EXPENSES		
Salaries and employee benefits	372,201	352,483
Depreciation and amortisation	31,336	39,518
Other	376,479	391,519
	<u>780,016</u>	<u>783,520</u>
Net income and total comprehensive income	<u><u>294,987</u></u>	<u><u>287,072</u></u>

8. Property, Plant and Equipment

	Land & Buildings \$	Furniture & Fixtures \$	Motor Vehicles \$	Computer Software & Office Equipment \$	Leasehold Improvements \$	Total \$
Year ended						
31 December 2018						
Opening net book value	6,565,243	647,998	28,250	1,773,168	1,907,563	10,922,222
Revaluation	-	-	-	-	-	-
Additions	137,888	423,899	24,500	247,459	138,782	972,528
Disposals						
Cost	-	-	(10,000)	-	-	(10,000)
Accumulated depreciation	-	-	5,500	-	-	5,500
Depreciation	<u>(213,125)</u>	<u>(237,030)</u>	<u>(18,053)</u>	<u>(694,473)</u>	<u>(286,055)</u>	<u>(1,448,736)</u>
Closing net book value	<u><u>6,490,006</u></u>	<u><u>834,867</u></u>	<u><u>30,197</u></u>	<u><u>1,326,154</u></u>	<u><u>1,760,290</u></u>	<u><u>10,441,514</u></u>
As of 31 December 2018						
Cost or valuation	6,884,412	5,492,663	135,989	11,169,494	8,246,212	31,928,770
Accumulated depreciation	<u>(394,406)</u>	<u>(4,657,796)</u>	<u>(105,792)</u>	<u>(9,843,340)</u>	<u>(6,485,922)</u>	<u>(21,487,256)</u>
Net book value	<u><u>6,490,006</u></u>	<u><u>834,867</u></u>	<u><u>30,197</u></u>	<u><u>1,326,154</u></u>	<u><u>1,760,290</u></u>	<u><u>10,441,514</u></u>
Year ended						
31 December 2017						
Opening net book value	6,300,000	785,284	44,761	1,910,239	1,917,253	10,957,537
Revaluation	-	-	-	-	-	-
Additions	446,524	103,606	-	535,931	311,165	1,397,226
Disposals						
Cost	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-
Depreciation	<u>(181,281)</u>	<u>(240,892)</u>	<u>(16,511)</u>	<u>(673,002)</u>	<u>(320,855)</u>	<u>(1,432,541)</u>
Closing net book value	<u><u>6,565,243</u></u>	<u><u>647,998</u></u>	<u><u>28,250</u></u>	<u><u>1,773,168</u></u>	<u><u>1,907,563</u></u>	<u><u>10,922,222</u></u>

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

8. Property, Plant and Equipment (Continued)

	Land & Buildings \$	Furniture & Fixtures \$	Motor Vehicles \$	Computer Software & Office Equipment \$	Leasehold Improvements \$	Total \$
As of 31 December 2017						
Cost or valuation	6,746,524	5,068,764	121,489	10,922,035	8,107,430	30,966,242
Accumulated depreciation	<u>(181,281)</u>	<u>(4,420,766)</u>	<u>(93,239)</u>	<u>(9,148,867)</u>	<u>(6,199,867)</u>	<u>(20,044,020)</u>
Net book value	<u>6,565,243</u>	<u>647,998</u>	<u>28,250</u>	<u>1,773,168</u>	<u>1,907,563</u>	<u>10,922,222</u>

The fair value hierarchy for non-financial assets is consistent with the hierarchy for financial assets disclosed in Note 24. Land and buildings are classified as Level 3, as inputs such as comparable sales, rental rates, vacancy rates and market discount rates are not readily and regularly available from market sources.

Fair value is based on valuation methods using discounted cash flow projections, which reflect, among other things, assumptions about rental rates and vacancy rates in light of current market conditions, and market discount rates. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the land and buildings. Land and buildings were revalued by independent appraisers as of 31 December 2016 and reassessed as of 31 December 2018, resulting in no change in carrying values.

The following table illustrates the impact of changes in estimates and assumptions in determination of fair values of land and buildings.

Estimate/Assumption	Change	Impact on fair value
Rental revenue	+5.00%/-5.00%	\$133,000/(\$498,000)
Vacancy rates	+3.00%/-3.00%	(\$390,000)/\$26,000
Discount rate	+0.50%/-0.50%	(\$514,000)/\$189,000

If land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2018 \$	2017 \$
Cost	8,493,110	8,355,222
Accumulated depreciation	<u>(2,333,799)</u>	<u>(2,163,638)</u>
Net book value	<u>6,159,311</u>	<u>6,191,584</u>

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

9. Deposits from Customers

	2018 \$	2017 \$
Term deposits	384,913,167	363,342,122
Savings deposits	86,520,400	68,997,673
Demand deposits	53,707,672	52,797,272
Escrow deposits	<u>3,954,068</u>	<u>3,524,679</u>
	529,095,307	488,661,746
Accrued interest	<u>3,639,224</u>	<u>4,854,823</u>
Total	<u>532,734,531</u>	<u>493,516,569</u>

Included in deposits from customers are deposits from banks totalling \$54,545,478 (2017: \$43,401,744). Deposits carry fixed interest rates ranging from 0.00% to 5.00% (2017: 0.00% to 5.75%) per annum, but the fixed interest rates are determined based on market rates and can be adjusted at the respective maturities of the deposits based on changes in market rates. The effective interest rate incurred on deposits from customers for the year ended 31 December 2018 was 2.05% (2017: 2.60%).

10. Debt Securities

	2018 \$	2017 \$
Series B redeemable variable rate notes; B\$ Prime + 1.75%; 2022	9,932,655	9,918,234
Series E redeemable fixed rate notes; 6.00%; 2018	-	9,977,593
Series F redeemable variable rate notes; B\$ Prime + 1.25%; 2022	19,802,508	19,753,541
Series B redeemable preference shares; B\$ Prime + 1.00%; 2021	<u>4,000,000</u>	<u>4,000,000</u>
	33,735,163	43,649,368
Accrued interest	<u>229,295</u>	<u>283,595</u>
Total	<u>33,964,458</u>	<u>43,932,963</u>

As part of a \$50,000,000 note programme approved by the Directors, the Bank offered through private placement, unsecured fixed and variable rate notes. As of 31 December 2018, the outstanding notes comprise: Series B – \$10,000,000 redeemable variable rate notes (B\$ Prime rate plus 1.75%) due 19 October 2022; and Series F – \$20,000,000 redeemable variable rate notes (B\$ Prime + 1.25%) due 30 May 2022. Interest is payable semi-annually on 19 April and 19 October each year for Series B; and 30 May and 30 November each year for Series F.

On 30 May 2018, the Series E fixed rate notes totalling \$10,000,000 were redeemed.

Series B variable rate redeemable preference shares mature on 12 December 2021. Dividends are payable on these shares at the rate of B\$ Prime rate plus 1.00% per annum, subject to the declaration of the Directors and the prior approval of the Central Bank. Dividends are payable semi-annually on the last business day in June and December each year.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

11. Capital

	2018 \$	2017 \$
<i>Authorised</i>		
35,000,000 ordinary shares of \$0.30 each	<u>10,500,000</u>	<u>10,500,000</u>
10,000,000 preference shares of \$1.00 each	<u>10,000,000</u>	<u>10,000,000</u>
<i>Issued and Fully Paid</i>		
28,866,670 ordinary shares of \$0.30 each	8,660,001	8,660,001
Share premium	<u>11,890,000</u>	<u>11,890,000</u>
	20,550,001	20,550,001
61,566 (2017: 67,881) ordinary shares held in treasury	<u>(169,307)</u>	<u>(186,673)</u>
Total	<u>20,380,694</u>	<u>20,363,328</u>
1,500,000 preference shares of \$1.00 each	1,500,000	1,500,000
Share premium	<u>13,500,000</u>	<u>13,500,000</u>
Total	<u>15,000,000</u>	<u>15,000,000</u>

Series A variable rate non-cumulative redeemable preference shares are perpetual, but may be redeemed at the option of the Bank with ninety (90) days written notice to the shareholders at any time after the fifth anniversary of the closing date with the prior approval of the Central Bank. As of 31 December 2018, there are 1,500,000 (2017: 1,500,000) preference shares eligible for redemption by the Bank. Preference shareholders rank in priority to ordinary shareholders.

Dividends are payable on these shares at the rate of B\$ Prime rate plus 2.25% per annum, subject to the declaration of the Directors and the prior approval of the Central Bank. Dividends are payable semi-annually on the last business day in June and December each year.

The Bank has an employee share ownership trust, which was established through the issuance of 200,000 ordinary shares at \$2.75 per share, representing the fair value of ordinary shares based on BISX prices at the date of establishment. For the year ended 31 December 2018, share based compensation to employees resulted in 6,315 (2017: 10,940) ordinary shares being issued by the trust, with the remaining shares treated as treasury shares. The ordinary shares issued to employees were valued at \$10.44 (2017: \$10.00) per share with an equivalent expense recognised in salaries and employee benefits.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

12. Earnings per Share

	2018 \$	2017 \$
Net income attributable to ordinary shareholders	<u>21,389,469</u>	<u>20,078,118</u>
Weighted average number of ordinary shares outstanding	<u>28,803,525</u>	<u>28,795,142</u>
Earnings per share	<u>0.74</u>	<u>0.70</u>

13. General and Administrative Expenses

	2018 \$	2017 \$
Office expenses	4,520,263	3,862,295
Bank and business licence fees	2,902,464	2,869,982
Public relations expenses	1,401,070	801,284
Legal and professional fees	716,958	578,394
Premises related costs	630,584	589,971
Value added tax	444,922	327,406
Directors' cost	139,885	148,183
Other	<u>972,890</u>	<u>1,136,613</u>
Total	<u>11,729,036</u>	<u>10,314,128</u>

14. Employee Benefits

The Group participates in a defined contribution pension plan (the Plan), which covers all employees of the Parent's Bahamas based operations. The Plan is administered by RFMBT.

Employees in the Plan contribute a percentage of gross salary, and the Group matches employee contributions. The Group's contributions vest 20% upon completion of four (4) years of employment with incremental vesting following each additional year of employment and fully vest upon completion of ten (10) years of employment. Pension expense for the year ended 31 December 2018 totalled \$306,093 (2017: \$279,593).

15. Segment Analysis

Operating segments are reported in accordance with the internal reporting provided to the Executive Committee (ExCom), which is responsible for allocating resources to the reportable segments and assessing their performance. The Group's sole operating and reportable segment is retail banking, which incorporates mortgage and consumer loans; current accounts, savings and term deposits; credit and debit cards; and related services.

The segment operations are all financial with principal revenues derived from interest income and fees and commissions.

The revenues from external parties reported to ExCom are measured in a manner consistent with that presented in the consolidated statement of comprehensive income.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued)

31 December 2018

15. Segment Analysis (Continued)

The information provided about segments is based on the internal reports about the segment income, expenses, other comprehensive income, assets and other information, which are regularly reviewed by ExCom. Segment assets and liabilities comprise operating assets and liabilities, representing the consolidated statement of financial position.

The Group's operations, income and assets are all based in The Bahamas.

There were no aggregated transactions with a single external customer that amounted to 10.00% or more of the Group's total income.

Fees and commissions

The vast majority of fees and commissions are earned at a point in time when the performance obligations have been satisfied, with less than 10.00% earned over time. No variable fees are applicable.

16. Related Party Balances and Transactions

Related parties include key management personnel (including Directors); entities that have the ability to control or exercise significant influence over the Group in making financial or operational decisions; and entities that are controlled, jointly controlled or significantly influenced by key management personnel and entities noted earlier.

Related party balances and transactions, not disclosed elsewhere in these consolidated financial statements, are as follows:

	2018	2017
	\$	\$
ASSETS		
Cash at banks		
Other related parties	11,765,846	8,553,960
Loans and advances to customers		
Key management personnel	3,409,117	2,197,110
Other related parties	10,000,800	-
Other assets		
The Parent	3,923,021	472,634

Cash at banks earn interest at rates ranging from 0.00% to 2.50% (2017: 0.00% to 1.50%) per annum, and mature within one (1) year.

Loans and advances to customers earn interest at rates ranging from 0.00% to 3.00% (2017: 0.00% to 12.00%) per annum, with maturities up to twenty-four (24) years. Balances due from other related parties are due within one (1) year, are supported by government debt securities pursuant to sale and repurchase agreements, and earn interest at the rates related to the respective securities. There is no provision for loan losses in respect of these balances.

Amounts included in other assets are unsecured, interest-free and have no set terms of repayment.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

16. Related Party Balances and Transactions (Continued)

	2018	2017
	\$	\$
LIABILITIES		
Deposits from customers		
The Parent	6,463,632	1,267,059
Key management personnel	4,441,487	2,765,913
Other related parties	25,323,317	23,060,623
Debt securities		
Key management personnel	35,000	35,000
Other related parties	11,029,800	14,013,700

Deposits from customers carry interest rates ranging from 0.00% to 5.00% (2017: 0.00% to 5.00%) per annum, and mature within one (1) year.

EQUITY

As of 31 December 2018, key management personnel and other related parties hold 1,675,820 (2017: 1,693,694) outstanding ordinary shares and 520,081 (2017: 520,081) outstanding preference shares.

	2018	2017
	\$	\$
INCOME		
Interest income		
Key management personnel	99,927	55,160
Other related parties	43,102	26,945
Interest expense		
The Parent	39,606	39,338
Key management personnel	90,413	35,906
Other related parties	24,730	30,159
Fees and commissions		
Other related parties	56,786	54,715
EXPENSES		
Salaries and employee benefits		
Key management personnel (non-executive Directors)	129,408	130,138
Key management personnel (executive Directors and other)	1,217,742	1,285,291
Costs allocated from related parties		
The Parent	700,000	700,000
Costs allocated to related parties		
Other related parties	(2,265,158)	(2,183,408)

The Group receives certain services from the Parent, with the charges for these services expensed in the relevant expense accounts to which the services relate. The Group provides certain services to the Parent and other related parties with costs associated with these services being allocated to the respective parties and recorded as deductions in the relevant expense accounts.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

17. Commitments

Loan commitments

In the normal course of business, the Group enters into various credit-related arrangements to meet the needs of customers and earn income. These financial instruments are subject to the Group's standard credit policies and procedures. As of 31 December 2018, the Group had outstanding loan commitments amounting to \$10,247,748 (2017: \$7,650,961).

Lease commitments

The future minimum rental payments required under non-cancellable leases as of 31 December 2018 are as follows:

	2018	2017
	\$	\$
2018	-	616,975
2019	624,931	580,091
2020	483,745	434,907
2021	324,751	285,294
2022	86,180	45,736
2023 and later	51,114	6,198
Total	<u>1,570,721</u>	<u>1,969,201</u>

18. Contingent Liabilities

The Group is involved in various legal proceedings covering a range of matters that arise in the ordinary course of business activities. Management is of the view that no significant losses will arise as a result of these proceedings.

19. Reserve for Credit Losses

In prior years, the reserve for credit losses was created by the Bank through the appropriation of retained earnings in order to meet the requirements of the Central Bank for credit loss provisions. The reserve represented the Bank's provision required by the Central Bank in excess of amounts calculated in accordance with IFRS. Effective 1 January 2018, with the implementation of IFRS 9, the reserve for credit losses was utilised to increase the provision for loan losses.

20. Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

20. Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Classification of financial assets and financial liabilities and remeasurement under IFRS 9

Effective 1 January 2018, the Group performed detailed analyses of its business models for managing financial assets and financial liabilities, and analyses of the respective cash flow characteristics. The analyses performed resulted in investment securities being classified as financial assets at amortised cost, as the cash flow characteristics meet the requirements for SPPI, and the Group's business model is to hold investment securities without an intention to sell. The Group invests in investment securities principally for the purposes of maintaining appropriate capital based on the requirements of the Central Bank through financial assets that yield investment income, while securing liquidity in the event of significant events requiring cash and cash equivalents. The maturity profile of investment securities is managed to provide cash flows over short, medium and long terms for the purposes of managing liquidity and accordingly, sales are expected to be infrequent. Previously, investment securities were classified as financial assets at fair value through profit or loss, as they comprised equity and debt securities and the entire portfolio was managed collectively on a fair value basis. In most recent years, the composition of investment securities was restricted to debt securities that support the capital and liquidity objectives of the Group, however the original classification was not amended until the adoption of IFRS 9. The change in classification has resulted in a change in the measurement of investment securities from fair value to amortised cost, however the fair values of investment securities were consistent with amortised cost.

The remaining financial assets were previously classified as loans and receivables (cash at banks, loans and advances to customers and receivables included in other assets), and are now classified as financial assets at amortised cost. The change in classification has not resulted in a change in the measurement of such financial assets, except that impairment losses are now calculated using ECL as opposed to incurred losses.

There were no changes in the classification and measurement of financial liabilities.

The carrying values of financial assets and financial liabilities were not impacted by the adoption of IFRS 9, except for the increase in provision for loan losses. This was due to the fair value, where applicable, of financial assets approximating the amortised cost. The impact of implementing the ECL model resulted in the following remeasurement of financial assets in the consolidated statement of financial position as of 31 December 2018:

	\$
Loans and advances to customers	
Balance as of 31 December 2017	408,644,237
Remeasurement of provision for loan losses	<u>(5,893,414)</u>
Balance as of 1 January 2018	<u>402,750,823</u>

For the year ended 31 December 2018, there were no changes in the Group's business model for each of its financial assets, and accordingly, there were no reclassifications of financial assets.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

20. Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Inputs, assumptions and estimation techniques factored into measuring ECL

Measurement of ECL involves a methodology that encompasses models and data inputs. Factors that significantly impact ECL calculations include: definition of default, SICR, Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), as defined below, as well as models of macro-economic scenarios. The Group reviews its financial assets at amortised cost to assess impairments on a quarterly basis, or more frequently when the need arises, and validates the models and data inputs to reduce differences between ECL estimates and actual credit loss experience.

ECL calculations are measured on 12-month or lifetime bases, depending on whether credit risk has significantly increased subsequent to initial recognition or whether a financial asset is considered to be credit-impaired. ECLs are the discounted product of the PD, EAD, and LGD.

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next twelve (12) months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. The Group defines a financial asset as in default, which is consistent with the definition of credit-impaired, when one (1) or more of the following criteria are met:

Quantitative criteria

- Contractual payments from the borrower are past due in excess of ninety (90) days.

Qualitative criteria

More subjective considerations of default assess whether the borrower is in significant financial difficulty and unlikely to meet contractual payments when due, including the following circumstances:

- The borrower is subject to special conditions where payments are being deferred and asset recovery procedures have been delayed, where applicable.
- The borrower is deceased.
- There is evidence that the borrower is insolvent.
- There is a commencement of asset recovery procedures, including legal proceedings seeking judgment against the borrower and, where applicable, vacant possession of collateral.
- Concessions have been made by the Group relating to the borrower's financial difficulty, including modification of terms and conditions that are not standard to normal borrowing relationships.
- Restructuring proceedings, or indication of intention to commence restructuring proceedings, in relation to debt securities issued (investment securities only).

The criteria above are consistent with the definition of default used for internal credit risk management purposes, and have been used to assess all financial assets of the Group. The default definition has been applied consistently to model the PD, EAD and LGD in all expected loss calculations.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

20. Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Inputs, assumptions and estimation techniques factored into measuring ECL (continued)

A financial asset is no longer assessed as being default (that is, default has been cured) when it no longer meets any of the default criteria for a consecutive period of six (6) months. This period has been determined based on analyses that assess the likelihood of a financial asset returning to default status after being cured.

- EAD is based on the balance of the financial asset expected to be outstanding at the time of default, over the next twelve (12) months (12-month EAD) or over the remaining lifetime (lifetime EAD). For example, for revolving credit facilities, the Group includes the current drawn balances plus any further amounts that are expected to be drawn up to the current contractual limit by the time of default, should it occur.
- LGD represents the expectation of the extent of loss on an exposure in default. LGD varies based on the nature of the counterparty, the type and seniority of claim, and the availability of collateral or other credit support. LGD is expressed as the percentage loss per unit of exposure at the time of default, and is also calculated on 12-month or lifetime bases.

The ECL is determined by projecting the PD, LGD and EAD for future periods and for each individual exposure or collective segment. These three (3) components are multiplied together and adjusted for the likelihood of survival, which is that the exposure has not prepaid or defaulted in an earlier period. This effectively calculates an ECL for each future period, which is then discounted back to the financial reporting date and summed. The discount rate used in the ECL calculation is the approximation of the original effective interest rate.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

Significant increase in credit risk

Qualitative and quantitative indicators are factored into the determination of SICR, considering all reasonable and supportable information available without undue cost and effort, on past events, current conditions and future behavioural aspects of particular portfolios of financial assets. The Group makes best efforts to identify indicators of SICR of individual financial assets prior to delinquency and accordingly incorporates significant assumptions in its model.

The Group continuously monitors all financial assets subject to ECL, and assesses whether there has been SICR since initial recognition, which is performed on an individual basis and on a portfolio basis. Cash at banks, individually significant loans and advances to customers and investment securities classified as at amortised cost are assessed for SICR on an individual basis by monitoring the triggers stated below. For other loans and advances to customers and other financial assets, SICR is assessed on a portfolio basis unless mechanisms exist for rating credit risk on an individual basis.

A financial asset is considered to have experienced SICR when the following criteria have been met:

Investment securities

- Contractual payments from the issuer are past due in excess of thirty (30) days.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

20. Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Significant increase in credit risk (continued)

- Change from investment grade credit rating to non-investment grade credit rating.
- Two (2) notch downgrade within investment grade credit rating bands.

Loans and advances to customers

- Contractual payments from the borrower are past due in excess of thirty (30) days.

With respect to the cure for SICR, a significant decrease in credit risk is considered to have occurred when the following criteria have been met:

Investment securities

- There are no contractual payments past due.
- Credit rating reverts to level immediately prior to being deemed to have SICR.

Loans and advances to customers

- There are no contractual payments past due, and contractual payments have been received from the borrower for six (6) consecutive months.

If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Group monitors whether that indicator continues to exist or has changed. If there is evidence that the SICR criteria are no longer met, the financial asset is transferred to Stage 1.

The assessment of SICR incorporates forward-looking information, as described below, and is performed on a quarterly basis at a portfolio level for all loans and advances to customers. For investment securities, the assessment is performed on a quarterly basis at a counterparty level. The criteria used to identify SICR are monitored and evaluated periodically for relevance and appropriateness by the relevant sub-committee of ExCom.

Should ECL on an additional 10.00% of loans and advances to customers be measured at lifetime ECL (that is, including those that are currently in Stage 1 measured at 12-months ECL), the provision for loan losses would increase by \$18,374,780 as of 31 December 2018 (1 January 2018: increase by \$16,429,121).

The low credit risk exemption has not been used for the year ended 31 December 2018.

Forward-looking information factored into ECL models

Forward-looking information is factored into both the assessment of SICR and the calculations of ECL. Historical analyses have been performed, which identified the key economic variables impacting credit risk and ECL for each type of financial asset.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

20. Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Forward-looking information factored into ECL models (continued)

These economic variables and their associated impact on the PD, EAD and LGD vary by type of financial asset, and requires judgment. Forecasts of these economic variables (the base economic scenario) are determined periodically based on benchmark information available in The Bahamas, which provide the best estimate view of the economy over the medium term. To project the economic variables out for the full remaining lifetime of each type of financial asset, a mean reversion approach has been utilised, which means that economic variables trend towards either a long run average rate (e.g. for unemployment) or a long run average growth rate (e.g. GDP) over a period of two (2) to five (5) years. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates.

In addition to the base economic scenario, other possible scenarios along with scenario weightings are determined. The number of other scenarios used is set based on the analyses of each major type of financial asset to ensure non-linear relationships are appropriately factored in. The number of scenarios and their attributes are reassessed at each financial reporting date. As of 1 January 2018 and 31 December 2018, three (3) scenarios were deemed to appropriately capture non-linear relationships. The scenario weightings are determined by a combination of statistical analysis and judgment, taking into account the range of possible outcomes each chosen scenario is representative of.

The Group used supportable forward-looking information for measurement of ECL, primarily an outcome of its own macro-economic forecasting model with three (3) macro-economic scenarios to calculate unbiased and probability weighted ECL: most likely outcome (Baseline); and two (2) less likely scenarios being better than Baseline (Upside) and worse than Baseline (Downside). For credit exposure in The Bahamas, the weight for the Baseline is set to 80.00% and 8.85% and 11.15% weights are applied to Upside and Downside, respectively. For credit exposure internationally, the weight for the Baseline is set to 80% and 10% weights are applied to Upside and Downside, respectively.

A change in the weight assigned to Baseline forward-looking macroeconomic set of assumptions by 10.00% towards the immediate Downside assumptions and a corresponding change towards the Upside assumptions would not result in any significant increase/decrease in ECL as of 31 December 2018 and 1 January 2018.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to significant inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. These forecasts represent the best estimate of the possible outcomes and analyses the non-linear relationships and asymmetries within the different types of financial assets to establish that the selected scenarios appropriately represent the range of possible scenarios.

Sensitivity analyses

The most significant assumptions impacting the:

- allowances for impairment (investment securities and other financial assets, excluding loans and advances to customers) was independent credit rating, which is an indication of the ability of an issuer of debt securities to meet contractual payments, including principal and interest, based on assessed credit rating; gross domestic product (GDP) growth and foreign direct investment.
- provision for loan losses was the unemployment rate, given its impact on a borrower's ability to meet his/her contractual payments.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

20. Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Forward-looking information factored into ECL models (continued)

For investment securities and other financial assets, excluding loans and advances to customers, the changes to ECL calculations (allowances for impairment) for reasonable possible changes in the parameters used in the economic variable assumptions were immaterial.

For loans and advances to customers, a 10.00% increase/decrease in credit loss experience based on the incurred loss model used in the year ended 31 December 2017 would result in an increase/decrease in provision for loan losses of \$1,036,112 as of 31 December 2017. A corresponding change in the ECL model for the year ended 31 December 2018 would result in an increase/decrease in provision for loan losses of \$1,555,070 as of 31 December 2018.

Grouping of financial assets for losses measured on a collective basis

For ECL modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogenous.

In performing this grouping, there must be sufficient information for the group to be statistically credible. For loans and advances to customers, groupings are based on product type, comprising mortgages, consumer loans (government and non-government employees), credit cards and overdrafts. Exposures for investment securities and all Stage 3 loans and advances to customers are assessed individually.

The appropriateness of groupings is monitored and evaluated on a periodic basis by the relevant sub-committee of ExCom.

21. Capital Management

The Group's objectives when managing capital, which comprises total equity on the face of the consolidated statement of financial position, are:

- To comply with the capital requirements set by the Central Bank.
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for its shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored by the Group's management, employing techniques designed to ensure compliance with guidelines established by the Central Bank, including quantitative and qualitative measures. The required information is filed with the Central Bank on a quarterly basis.

The Central Bank, the Group's principal regulator, requires that the Group maintains a ratio of total regulatory capital to risk-weighted assets at or above a minimum of 14.00%. For the years ended 31 December 2018 and 2017, the Group complied with all of the externally imposed capital requirements to which it is subject.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

22. Financial Risk Management

Strategy in using financial instruments

By their nature, the Group's activities are principally related to the use of financial instruments. The Group accepts deposits from customers at both fixed and variable rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in higher yielding assets – principally loans and advances to customers. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher interest rates, while maintaining sufficient liquidity to meet claims that might fall due.

The principal risks which arise from the Group's core activities that must be effectively managed include credit, interest rate, price, liquidity and currency risks. The Group does not use derivative instruments to manage any of these risks.

Concentration of risks

Concentration of risk indicates the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location, and arises: when a significant proportion of financial instruments or contracts are entered into with the same counterparty; or where a significant proportion of counterparties are engaged in similar business activities, or activities in the same geographical region, or that have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of liquidity risk arises from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realise liquid assets. Concentration of currency risk arises when the Group has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that are historically positively correlated.

To mitigate excessive concentration of risk, the Group's policies and procedures include specific guidelines to maintain appropriate diversification.

Credit risk

Credit risk is the risk of suffering financial losses should any of the Group's customers or other counterparties fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from loans and advances to customers, including loan commitments arising from such lending activities, and cash at banks and investments in debt securities as part of the Group's treasury management activities. The Group seeks to raise its interest margins by obtaining above-average margins, net of provision for loan losses, through lending to commercial and retail borrowers with a range of credit standings. Such exposures comprise loans and advances to customers, as well as off-balance sheet exposures including guarantees and other commitments such as letters of credit, and performance and other bonds.

Credit risk is one of the most significant risks facing the Group and management therefore carefully manages its exposure to credit risk. Impairment provisions are provided for ECL (2017: losses incurred) as of the date of the statement of financial position (Note 6). Significant changes in the economies or sectors that represent a concentration in the Group's portfolio could result in losses that are different from those provided for as of the date of the statement of financial position.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued)

31 December 2018

22. Financial Risk Management (Continued)

Credit risk (continued)

The Group's Directors and ExCom are responsible for approving and monitoring the Group's credit exposure, which is done through review and approval of the Group's lending policies, and limits on credit exposure to individual borrowers and sectors. Prior to advancing funds, an assessment is made of the credit quality of each borrower. The Group does not use an automated credit scoring system; exposure to credit risk is managed through regular analyses of the ability of borrowers to meet contractual obligations, performed by branch managers, the central credit underwriting department, ExCom and the Directors. It is the Group's policy to lend responsibly and establish loans that are within a customer's ability to repay rather than relying exclusively on security.

Maximum credit exposure at the year end approximates the carrying value of all financial assets. The classes of financial instruments to which the Group is most exposed to credit risk are loans and advances to customers (Note 6), cash at banks (Note 4) and certain investment securities (Note 5).

The Group places its deposits with banks in good standing with the Central Bank and other regulators in jurisdictions in which deposits are placed. Investment securities with credit risk comprise debt securities issued by the Government of the Commonwealth of The Bahamas, which currently maintains investment grade credit ratings.

The Group has assessed ECL for deposits with banks, investment securities and other financial assets, excluding loans and advances to customers, and such amounts based on the credit quality of the counterparties are immaterial. Accordingly, no allowance for impairment losses has been recognised.

For loans and advances to customers, the Group employs a range of policies and practices to mitigate credit risk. The most traditional is the taking of security for funds advanced, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or other credit risk mitigation. The principal collateral or other credit risk mitigation for loans and advances to customers include first mortgages on property, chattel mortgages, restricted deposits from customers and salary deductions from employers. Certain loans and advances to customers, including consumer loans, credit card receivables and overdrafts are unsecured.

The table below analyses the composition of the Group's loan portfolio as of 31 December 2018.

	2018		2017	
	\$	%	\$	%
Consumer	371,102,990	80.77	336,979,950	79.79
Family residential property	53,605,856	11.67	57,342,927	13.58
Reverse sale and repurchase	10,000,800	2.18	-	-
Undeveloped land	9,867,686	2.15	11,423,704	2.71
Cash secured	5,865,758	1.28	5,964,383	1.41
Overdrafts	3,508,500	0.76	3,719,002	0.88
Commercial property	1,759,196	0.38	1,894,560	0.45
Other	3,750,000	0.81	5,000,000	1.18
	459,460,786	100.00	422,324,526	100.00

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

22. Financial Risk Management (Continued)

Credit risk (continued)

The average mortgage loan balance is \$83,000 (2017: \$81,000) and the average consumer loan balance is \$40,000 (2017: \$39,000) with the largest exposure to a single customer totalling approximately \$10,000,800 (2017: \$5,000,000). Mortgage loans can extend up to twenty-five (25) years, and consumer loans up to ten (10) years.

The table below analyses loans and advances to customers by payment status as of 31 December 2018.

	2018		2017	
	\$	%	\$	%
Not impaired				
– Neither past due nor impaired	430,515,153	93.70	388,850,647	92.07
– Past due but not impaired	15,041,945	3.27	18,832,135	4.46
Impaired				
– Past due up to 3 months	1,065,540	0.23	1,316,716	0.31
– Past due 3 – 6 months	2,924,566	0.64	3,394,501	0.80
– Past due 6 – 12 months	1,639,406	0.36	1,994,304	0.48
– Past due over 12 months	8,274,176	1.80	7,936,223	1.88
	459,460,786	100.00	422,324,526	100.00
Provision for loan losses				
– Individually impaired	8,300,246	53.38	8,557,828	82.60
– Portfolio allowance	7,250,450	46.62	1,803,293	17.40
	15,550,696	100.00	10,361,121	100.00

The days past due metric is used by the Group to determine loans and advances to customers in the Stages for the ECL calculations. Loans and advances not past due, except for those specifically assessed as having other conditions of default, and up to thirty (30) days past due are Stage 1; past due in excess of thirty (30) days but less than three (3) months are Stage 2; and those past due in excess of three (3) months are Stage 3. Further, provision for loan losses on: individually impaired loans represents Stage 3; and portfolio allowance represents Stage 1 and Stage 2.

The table below discloses the loans and advances to customers that are past due but not impaired.

	Mortgages	Consumer and Other	Total
31 December 2018	\$	\$	\$
Past due up to 3 months	3,132,773	2,248,491	5,381,264
Past due 3 – 6 months	1,087,120	303,315	1,390,435
Past due 6 – 12 months	639,259	404,249	1,043,508
Past due over 12 months	7,175,985	50,753	7,226,738
Total past due but not impaired	12,035,137	3,006,808	15,041,945

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

22. Financial Risk Management (Continued)

Credit risk (continued)

31 December 2017	Mortgages \$	Consumer and Other \$	Total \$
Past due up to 3 months	3,231,496	2,197,139	5,428,635
Past due 3 – 6 months	778,472	191,746	970,218
Past due 6 – 12 months	1,458,680	814,342	2,273,022
Past due over 12 months	<u>10,079,324</u>	<u>80,936</u>	<u>10,160,260</u>
Total past due but not impaired	<u>15,547,972</u>	<u>3,284,163</u>	<u>18,832,135</u>

The fair value of collateral in the form of property is initially measured consistent with the accounting policy for land and buildings disclosed at Note 2(h), based on valuations performed by independent appraisers who hold recognised and relevant professional qualifications and have recent experience in the category of the properties being valued. Subsequently, the fair value is updated when market conditions indicate a potential decrease in fair value and/or when the customer initially goes into default.

As of 31 December 2018, individually impaired loans, which are included in Stage 3, can be analysed as follows:

31 December 2018	Mortgages \$	Consumer and Other \$	Total \$
Carrying amount	<u>8,514,481</u>	<u>5,389,207</u>	<u>13,903,688</u>
Provision for loan losses	<u>4,039,809</u>	<u>4,260,437</u>	<u>8,300,246</u>
31 December 2017			
Carrying amount	<u>7,208,946</u>	<u>7,432,798</u>	<u>14,641,744</u>
Provision for loan losses	<u>2,845,040</u>	<u>5,712,788</u>	<u>8,557,828</u>

The classification of loans as past due but not impaired, and provision for loan losses, are determined by reference to the fair value of collateral pledged in support of the respective loans and advances to customers in respect of such loans. As of 31 December 2018, a decrease of 10.00% in the fair value of collateral would result in a decrease of \$1,183,974 (2017: \$1,462,491) in the carrying value of loans classified as past due but not impaired and an increase in past due and impaired loans by an equal amount, and provision for loan losses would increase by \$529,560 (2017: \$469,688).

The provision for loan losses and allowances for impairment of other financial assets recognised in a financial period is impacted by several factors, including:

- Transfers between Stage 1 and Stages 2 or 3 due to financial assets experiencing significant increases (or decreases) of credit risk or becoming credit-impaired during a financial period, and the consequent change between 12-month ECL and lifetime ECL.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

22. Financial Risk Management (Continued)

Credit risk (continued)

- Increases for provision and/or allowances for new financial assets recognised during a financial period, and decreases for financial assets derecognised in a financial period.
- Impacts on the measurement of ECL due to changes made to model methodologies and assumptions.
- Decreases in provision and/or allowances related to financial assets written off during a financial period.

The tables below disclose movements in provision for loan losses due to the factors set out above for the year ended 31 December 2018.

	Stage 1 12-month ECL \$	Stage 2 Lifetime ECL \$	Stage 3 Lifetime ECL \$	Total \$
Mortgages				
Balance as of 1 January 2018	71,534	56,801	2,845,040	2,973,375
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(2,963)	29,416	-	26,453
Transfer from Stage 1 to Stage 3	(874)	-	2,505	1,631
Transfer from Stage 2 to Stage 1	2,313	(23,698)	-	(21,385)
Transfer from Stage 2 to Stage 3	-	(14,673)	21,741	7,068
Transfer from Stage 3 to Stage 2	-	7,031	-	7,031
Loans and advances written	3,203	-	-	3,203
Changes to models and assumptions	(4,040)	(1,476)	2,337,800	2,332,284
Loans and advances derecognised	(4,704)	(1,401)	(21)	(6,126)
Provision for loan losses	(7,065)	(4,801)	2,362,025	2,350,159
Write-offs	-	-	(1,167,256)	(1,167,256)
Other movements	-	-	(1,167,256)	(1,167,256)
Balance as of 31 December 2018	64,469	52,000	4,039,809	4,156,278

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

22. Financial Risk Management (Continued)

Credit risk (continued)

	Stage 1 12-month ECL \$	Stage 2 Lifetime ECL \$	Stage 3 Lifetime ECL \$	Total \$
Consumer and other loans				
Balance as of 1 January 2018	4,895,490	1,672,882	6,712,788	13,281,160
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(38,356)	1,206,404	-	1,168,048
Transfer from Stage 1 to Stage 3	(216,236)	-	8,893,489	8,677,253
Transfer from Stage 2 to Stage 1	13,831	(319,625)	-	(305,794)
Transfer from Stage 2 to Stage 3	-	(1,043,720)	2,048,059	1,004,339
Transfer from Stage 3 to Stage 2	-	1,845	(45,581)	(43,736)
Loans and advances written	2,150,102	469,924	772,704	3,392,730
Changes to models and assumptions	(390,652)	341,686	(1,099,552)	(1,148,518)
Loans and advances derecognised	(1,337,508)	(272,086)	(747,258)	(2,356,852)
Provision for loan losses	181,181	384,428	9,821,861	10,387,470
Write-offs	-	-	(12,274,212)	(12,274,212)
Other movements	-	-	(12,274,212)	(12,274,212)
Balance as of 31 December 2018	5,076,671	2,057,310	4,260,437	11,394,418
Total				
Balance as of 1 January 2018	4,967,024	1,729,683	9,557,828	16,254,535
Provision for loan losses during the year				
Transfers				
Transfer from Stage 1 to Stage 2	(41,319)	1,235,820	-	1,194,501
Transfer from Stage 1 to Stage 3	(217,110)	-	8,895,994	8,678,884
Transfer from Stage 2 to Stage 1	16,144	(343,323)	-	(327,179)
Transfer from Stage 2 to Stage 3	-	(1,058,393)	2,069,800	1,011,407
Transfer from Stage 3 to Stage 2	-	8,876	(45,581)	(36,705)
Loans and advances written	2,153,305	469,924	772,704	3,395,933
Changes to models and assumptions	(394,692)	340,210	1,238,248	1,183,766
Loans and advances derecognised	(1,342,212)	(273,487)	(747,279)	(2,362,978)
Provision for loan losses	174,116	379,627	12,183,886	12,737,629

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

22. Financial Risk Management (Continued)

Credit risk (continued)

Total (continued)	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	\$	\$	\$	\$
Write-offs	-	-	(13,441,468)	(13,441,468)
Other movements	-	-	(13,441,468)	(13,441,468)
Balance as of 31 December 2018	<u>5,141,140</u>	<u>2,109,310</u>	<u>8,300,246</u>	<u>15,550,696</u>

The tables below disclose movements in gross carrying amounts of loans and advances to customers the year ended 31 December 2018, which elucidate the significance of such changes to the changes provision for loan losses.

Mortgages	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	\$	\$	\$	\$
Balance as of 1 January 2018	<u>47,450,241</u>	<u>3,649,118</u>	<u>21,572,687</u>	<u>72,672,046</u>
Transfers				
Transfer from Stage 1 to Stage 2	(1,873,726)	1,873,726	-	-
Transfer from Stage 1 to Stage 3	(565,860)	-	565,860	-
Transfer from Stage 2 to Stage 1	1,534,082	(1,534,082)	-	-
Transfer from Stage 2 to Stage 3	-	(869,807)	869,807	-
Transfer from Stage 3 to Stage 2	-	447,917	(447,917)	-
Loans and advances written	2,112,817	-	-	2,112,817
Changes to exposure other than full derecognition	(2,901,677)	(166,393)	(1,317,390)	(4,385,460)
Loans and advances derecognised	(3,116,819)	(90,438)	(677,853)	(3,885,110)
Write-offs	-	-	(1,167,256)	(1,167,256)
Balance as of 31 December 2018	<u>42,639,058</u>	<u>3,310,041</u>	<u>19,397,938</u>	<u>65,347,037</u>

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

22. Financial Risk Management (Continued)

Credit risk (continued)

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Consumer and other loans	\$	\$	\$	\$
Balance as of 1 January 2018	333,588,837	5,544,431	7,200,044	346,333,312
Transfers				
Transfer from Stage 1 to Stage 2	(3,552,618)	3,552,618	-	-
Transfer from Stage 1 to Stage 3	(8,893,489)	-	8,893,489	-
Transfer from Stage 2 to Stage 1	2,179,683	(2,179,683)	-	-
Transfer from Stage 2 to Stage 3	-	(2,048,058)	2,048,058	-
Transfer from Stage 3 to Stage 2	-	436,122	(436,122)	-
Loans and advances written	160,714,971	667,954	772,704	162,155,629
Changes to exposure other than full derecognition	(15,375,136)	193,339	(266,789)	(15,448,586)
Loans and advances derecognised	(88,824,994)	(1,263,267)	(774,393)	(90,862,654)
Write-offs	-	-	(12,274,212)	(12,274,212)
Balance as of 31 December 2018	<u>379,837,254</u>	<u>4,903,456</u>	<u>5,162,779</u>	<u>389,903,489</u>
Total				
Balance as of 1 January 2018	381,039,078	9,193,549	28,772,731	419,005,358
Transfers				
Transfer from Stage 1 to Stage 2	(5,426,344)	5,426,344	-	-
Transfer from Stage 1 to Stage 3	(9,459,349)	-	9,459,349	-
Transfer from Stage 2 to Stage 1	3,713,765	(3,713,765)	-	-
Transfer from Stage 2 to Stage 3	-	(2,917,865)	2,917,865	-
Transfer from Stage 3 to Stage 2	-	884,039	(884,039)	-
Loans and advances written	162,827,788	667,954	772,704	164,268,446
Changes to exposure other than full derecognition	(18,276,813)	26,946	(1,584,179)	(19,834,046)
Loans and advances derecognised	(91,941,813)	(1,353,705)	(1,452,246)	(94,747,764)
Write-offs	-	-	(13,441,468)	(13,441,468)
Balance as of 31 December 2018	<u>422,476,312</u>	<u>8,213,497</u>	<u>24,560,717</u>	<u>455,250,526</u>

Renegotiated loans and advances to customers

Restructuring activities include extended payment arrangements and modification and deferral of payments. Restructuring policies and practices are determined based on indicators or criteria that indicate that payment will most likely continue, and such policies are under constant review. Renegotiated loans and advances that would otherwise be past due or impaired totalled \$14,690,000 (2017: \$14,863,000) as of 31 December 2018.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

22. Financial Risk Management (Continued)

Credit risk (continued)

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances to customers.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments as most commitments to extend credit are contingent upon customers maintaining specific credit standards. See Note 17 for loan commitments.

The Group monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter term commitments.

Geographical concentrations of financial assets

The Group has a concentration of credit risk in respect of geographical area, as both customers and assets held as collateral are based in The Bahamas.

Interest rate risk

Interest rate risk is the risk that the future cash flows or the fair values of financial instruments will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce gains or create losses in the event that unexpected movements arise.

The Group does not attempt to hedge specifically against the impact of changes in market interest rates on cash flow and interest margins and relies on the fact that the loan portfolio generally is based on variable interest rates linked to the B\$ Prime rate that generally reset within three (3) months of any change in these rates and has financial liabilities that finance these loans but at lower interest rates, which too are based on B\$ Prime rate and can be reset following the maturity of any deposits. The Group maintains a general policy of fixing the interest rate spread between interest earned on financial assets and interest incurred on financial liabilities.

As of 31 December 2018, the Group is exposed to fair value interest rate risk on \$40,564,500 (2017: \$45,463,170) of its investments in Government debt securities, which are at fixed interest rates with maturity dates ranging from 2020 to 2038 (2017: 2018 to 2031). The remainder of debt securities in the Group's investment portfolio are at variable rates linked to the B\$ Prime rate.

As of 31 December 2017, the Group was exposed to fair value interest rate risk on debt securities with principal balances totalling \$10,000,000 of its debt securities which were at fixed interest rates, and did not hedge against this risk. As of 31 December 2018, debt securities are at variable interest rates linked to the B\$ Prime rate.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

22. Financial Risk Management (Continued)

Interest rate risk (continued)

The table below summarises the Group's exposure to interest rate risks, and includes the Group's financial instruments at carrying amounts categorised by the earliest contractual repricing dates.

	Immediate Repricing \$	Up to 3 months \$	3 to 12 months \$	12 months to 5 years \$	More than 5 years \$	Non-interest bearing \$	Total \$
31 December 2018							
ASSETS							
Cash on hand and at banks	11,310,712	-	30,000,000	-	-	65,187,393	106,498,105
Investment securities	42,019,662	10,506,800	-	11,483,464	19,047,609	-	83,057,535
Loans and advances to customers	65,746,336	1,051,066	2,660,215	41,836,142	327,413,031	993,040	439,699,830
Other assets	-	-	-	-	-	4,668,546	4,668,546
Total financial assets	119,076,710	11,557,866	32,660,215	53,319,606	346,460,640	70,848,979	633,924,016
LIABILITIES							
Deposits from customers	95,920,422	102,257,852	210,008,341	76,283,648	-	48,264,268	532,734,531
Accrued expenses and other Liabilities	-	-	-	-	-	1,333,981	1,333,981
Debt securities	33,964,458	-	-	-	-	-	33,964,458
Total financial liabilities	129,884,880	102,257,852	210,008,341	76,283,648	-	49,598,249	568,032,970
Interest repricing gap	(10,808,170)	(90,699,986)	(177,348,126)	(22,964,042)	346,460,640	21,250,730	
31 December 2017							
ASSETS							
Cash on hand and at banks	4,808,747	-	-	-	-	99,050,239	103,858,986
Investment securities	42,555,968	10,311,239	500,658	11,473,280	23,655,622	-	88,496,767
Loans and advances to customers	74,459,413	533,262	904,401	43,177,487	288,323,653	1,246,021	408,644,237
Other assets	-	-	-	-	-	2,599,954	2,599,954
Total financial assets	121,824,128	10,844,501	1,405,059	54,650,767	311,979,275	102,896,214	603,599,944
LIABILITIES							
Deposits from customers	82,276,951	107,581,799	215,917,452	44,688,610	-	43,051,757	493,516,569
Accrued expenses and other liabilities	-	-	-	-	-	1,004,008	1,004,008
Debt securities	33,900,627	-	10,032,336	-	-	-	43,932,963
Total financial liabilities	116,177,578	107,581,799	225,949,788	44,688,610	-	44,055,765	538,453,540
Interest repricing gap	5,646,550	(96,737,298)	(224,544,729)	9,962,157	311,979,275	58,840,449	

As of 31 December 2018, an increase/decrease in market interest rates by 0.50% (2017: 0.50%), being assumption of reasonable potential changes in interest rates as of the respective date, with all other variables remaining constant, would increase/decrease net income by \$54,866 (2017: \$56,170).

Price risk

Price risk is the risk that the fair values and/or amounts realised on sales of financial instruments may fluctuate significantly as a result of changes in market prices. Price risk principally arises from the Group's investments in government debt securities, in the event that these are required to be sold to meet liquidity needs. The Group has significant concentration risk because all of its investment securities are issued by the Government of The Bahamas or its related entities. Trading levels in The Bahamas, whether on BISX or over-the-counter markets, are generally low and therefore, the ability of the Group to liquidate large positions may be difficult and prices received may be severely impacted. The Central Bank has created a secondary market for certain debt securities issued by the Government of The Bahamas, and prices currently being observed in this market and over-the-counter are the face values of such securities.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

22. Financial Risk Management (Continued)

Liquidity risk

Liquidity risk is the risk that the Group is not able to meet its financial obligations as they fall due or can do so only at an excessive cost. The Group's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Group and to enable it to meet all financial obligations. This is achieved by maintaining a prudent level of liquid assets through management control of the rate of growth of the business and maintaining high levels of capital.

The table below analyses financial assets and liabilities into relevant maturity groupings based on the remaining period to the contractual maturity dates as of the date of statement of financial position and represent undiscounted cash flows.

31 December 2018	Repayable on demand \$	Up to 3 months \$	3 to 12 months \$	12 months to 5 years \$	More than 5 years \$	Total \$
ASSETS						
Cash on hand and at banks	76,498,105	-	30,510,000	-	-	107,008,105
Investment securities	-	11,703,231	5,334,990	32,873,580	59,315,841	109,227,642
Loans and advances to customers	3,508,500	40,817,220	65,646,803	316,498,877	345,844,502	772,315,902
Other assets	-	4,668,546	-	-	-	4,668,546
Total financial assets	80,006,605	57,188,997	101,491,793	349,372,457	405,160,343	993,220,195
LIABILITIES						
Deposits from customers	145,184,690	104,880,339	211,307,259	77,542,534	-	538,914,822
Accrued expenses and other liabilities	-	1,333,981	-	-	-	1,333,981
Debt securities	-	-	1,910,000	38,970,000	-	40,880,000
Total financial liabilities	145,184,690	106,214,320	213,217,259	116,512,534	-	581,128,803
Net liquidity gap	(65,178,085)	(49,025,323)	(111,725,466)	232,859,923	405,160,343	
Loan commitments	10,247,748					
31 December 2017						
ASSETS						
Cash on hand and at banks	103,858,986	-	-	-	-	103,858,986
Investment securities	-	11,501,780	3,666,773	35,190,320	72,528,151	122,887,024
Loans and advances to customers	3,719,002	37,877,525	61,448,847	295,586,254	316,230,034	714,861,662
Other assets	-	2,599,954	-	-	-	2,599,954
Total financial assets	107,577,988	51,979,259	65,115,620	330,776,574	388,758,185	944,207,626
LIABILITIES						
Deposits from customers	125,328,706	108,275,421	219,254,386	45,428,361	-	498,286,874
Accrued expenses and other liabilities	-	1,004,008	-	-	-	1,004,008
Debt securities	-	-	12,420,000	41,510,000	-	53,930,000
Total financial liabilities	125,328,706	109,279,429	231,674,386	86,938,361	-	553,220,882
Net liquidity gap	(17,750,718)	(57,300,170)	(166,558,766)	243,838,213	388,758,185	
Loan commitments	7,650,961					

The relative distribution of financial instruments based on the maturity ranges in the analysis above is representative of the relative distribution of financial instruments that would result on the basis of discounted cash flows. Regulatory authorities set limits for liquidity balances, and the Group was in compliance with these requirements for the years ended 31 December 2018 and 2017.

As of 31 December 2018, principal and interest balances of the deposits of the ten (10) largest customers totalled \$155,979,870 (2017: \$156,663,140) representing 29.28% (2017: 31.74%) of total deposits from customers.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued)

31 December 2018

22. Financial Risk Management (Continued)

Currency risk

Currency risk is the risk that the fair values and/or amounts realised on sales of financial instruments or the settlement of financial liabilities may fluctuate due to changes in foreign exchange rates. The Group is not exposed to currency risk, as its financial instruments along with financial activity are predominantly denominated in B\$. The remaining financial instruments and financial activity are denominated in the United States dollar, and currency risk is mitigated because the B\$:US\$ exchange rate is fixed at 1:1.

23. Fiduciary Risk Management

The Group is susceptible to fiduciary risk, which is the risk that the Group may fail in carrying out certain mandates in accordance with the wishes of its customers. To manage exposure, the Group generally takes a conservative approach in its undertakings.

24. Fair Values of Financial Instruments

Fair value hierarchy

The Group ranks its financial instruments based on the hierarchy of valuation techniques required by IFRS, which is determined based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two (2) types of inputs lead to the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the financial instrument.

The determination of what constitutes 'observable' requires significant judgment by the Group. The Group considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

24. Fair Values of Financial Instruments

Fair value hierarchy (continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from the exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in Level 1.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include government debt securities and other securities with observable inputs.

Financial instruments classified within Level 3 have significant unobservable inputs, as they trade infrequently. Level 3 instruments include unlisted securities that have significant unobservable components.

Fair values

Financial instruments utilised by the Group comprise the recorded financial assets and liabilities disclosed in the consolidated financial statements. The Group's financial instruments are principally short term in nature, have interest rates that reset to market rates, or are carried at fair value; accordingly, their fair values approximate their carrying values. For long term financial assets and financial liabilities with fixed interest rates, despite a change in market rates since the issuance of the financial instruments there has been no observable change in fair values; accordingly, the carrying values approximate fair values.

Financial instruments are principally Level 2 in the fair value hierarchy. The fair value of the financial assets and financial liabilities disclosed under that category have been determined considering, amongst other factors, discounted cash flows, with the most significant input being the B\$ Prime rate as the discount rate. B\$ Prime rate was reduced by 0.50% effective January 2017, and prior to this change B\$ Prime rate had not experienced any changes since the year ended 31 December 2011.

25. Subsequent Events

Subsequent to 31 December 2018, the Group entered into a sale and purchase agreement to dispose of its shareholding in RFMBT, involving related parties. Pursuant to the agreement, the sales price for RFMBT is \$16,449,000 plus an amount equal to 50.00% of RFMBT's undistributed profits and retained earnings at the date of closing. The transaction is subject to the approval of the Central Bank and other applicable regulators.

Further, subsequent to 31 December 2018, the Directors approved a dividend on ordinary shares in the amount of \$0.29 per share and on Series A variable rate redeemable preference shares at the rate stated in Note 11. The dividends are subject to approval by the Central Bank.

26. Corresponding Figures

Summary of significant accounting policies

The corresponding figures have been presented in accordance with the accounting policies that were applicable during that year, which are disclosed below.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

26. Corresponding Figures (Continued)

Summary of significant accounting policies (continued)

(a) Financial assets

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables. Management determines the classification of its financial assets at initial recognition.

i) Financial assets at fair value through profit or loss

This category has two (2) sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified into the financial assets at fair value through profit or loss category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management. Financial assets designated as at fair value through profit or loss at inception are those that are managed and whose performance is evaluated on a fair value basis, and are intended to be held for an indefinite period of time but may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Information about these financial assets is provided internally on a fair value basis to the Group's Executive Committee.

All of the Group's investment securities classified as at fair value through profit or loss have been so designated by management.

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. They arise when the Group provides money, goods or services to a debtor with no intention of trading the receivable.

Regular-way purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to originate, purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs, except financial assets carried at fair value through profit or loss where such costs are expensed as incurred. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all risks and rewards of ownership. If the Group has neither transferred nor retained substantially all the risks and rewards of ownership, an assessment is made whether the Group has retained control of the financial assets.

Where the Group has not retained control, financial assets are derecognised and any rights or obligations retained or created as part of the transaction are recognised as separate assets or liabilities. Alternatively, where the Group has retained control, the Group continues to recognise the financial assets to the extent of its continuing involvement in the financial assets.

Financial assets at fair value through profit or loss are subsequently measured at fair value. The fair value of financial assets traded in active markets (e.g. international securities exchange) is based on quoted prices as of the last business day of the financial reporting period. The fair value of restricted securities and other securities that are not traded in active markets is determined using valuation techniques, including comparable recent arm's length transactions, discounted cash flow analyses and other techniques commonly used by market participants.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

26. Corresponding Figures (Continued)

Summary of significant accounting policies (continued)

(a) Financial assets (continued)

Loans and receivables are subsequently carried at amortised cost less provisions for impairment.

Gains or losses arising from sales and changes in fair value of financial assets at fair value through profit or loss are recognised in the consolidated statement of comprehensive income as a part of net income in the financial period in which they arise.

(b) Impairment of financial assets at amortised cost

The Group assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosures less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of comprehensive income as a part of net income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of comprehensive income as a part of net income. When a financial asset is uncollectible, it is written off against the related allowance account. Such financial assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Recoveries of accounts previously written off are recognised directly in the consolidated statement of comprehensive income as a part of net income.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued)
31 December 2018

26. Corresponding Figures (Continued)

Summary of significant accounting policies (continued)

(c) Income and expense recognition

Interest income and expense are recognised in the consolidated statement of comprehensive income for all financial instruments measured at amortised cost using the effective interest method. Loan origination fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loans and advances to customers.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees and commissions are generally recognised on the accrual basis when the service has been provided. Fee and commission income arising from negotiating or participating in the negotiation of a transaction for a third party, are recognised on completion of the underlying transaction, which is generally at the time the customer's account is charged. Portfolio, advisory, asset management and custody service and other similar fees are recognised based on the applicable service contracts, usually rateably over the period in which the service is provided. Performance linked fees are recognised when the performance criteria are fulfilled.

Dividend income is recognised in the consolidated statement of comprehensive income when the Group's right to receive payment has been established, except for dividends received from investments in joint ventures, the accounting policy for which is disclosed in Note 2(b).

Other income and expenses are recognised on the accrual basis.

Critical accounting estimates and judgments in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

FIDELITY BANK (BAHAMAS) LIMITED

Notes to the Consolidated Financial Statements (continued) 31 December 2018

26. Corresponding Figures (Continued)

Critical accounting estimates and judgments in applying accounting policies (continued)

Impairment losses on loans and advances to customers

The Group reviews its loan portfolios to assess impairment on a quarterly basis or more frequently when the need arises. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence for an individual financial asset includes: significant financial difficulty of the borrower; a breach of contract, such as delinquency in interest or principal payments; and actual or probable bankruptcy or other financial reorganisation of the borrower. Loans for which no specific impairment has been identified are grouped with similar loans in a portfolio and the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from that portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group or economic conditions that correlate with defaults on financial assets.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (e.g. asset type, collateral, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the borrowers' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Further, the fair value of collateral factors into the estimation of future cash flows and therefore an assessment of conditions that could impact the realisable value of collateral is also performed.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group, historical loss experience for financial assets with similar credit risk characteristics, collateral held in support of financial assets and objective evidence of impairment similar to those in the portfolio. Estimates of changes in future cash flows for groups of financial assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

